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Career & Technology Studies

Service Business I
FIN 1020

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Financial Management 1020
Service Business 1
Student Module Booklet
Learning Technologies Branch
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Students	✓
Teachers	✓
Administrators	
Home Instructors	
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Other	

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Welcome!

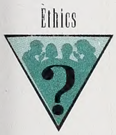
Welcome to FIN 1020.

We hope you'll enjoy your study of *Service Business 1*.

CTS strands were designed to stand alone or be integrated with other strands for a customized course of studies to meet student needs. Through each strand, CTS basic competencies (knowledge, skills, and attitudes) will be identified as follows:

Careers: identify appropriate career linkages within the strand being studied

Communication: effectively present concise written, visual, and oral communications



Ethics: make judgements about whether behaviour is right or wrong on personal, community, and global levels

Innovation: recognize opportunities/problems and identify and suggest new ideas

Safety: assess potential risks, and follow personal and environmental safety procedures

Task Management: demonstrate an ability to locate and use resources and to use time effectively

Teamwork: work towards goals co-operatively, collaboratively, or independently, and acknowledge the opinions of others

Technology: effectively use technology when required

These basic competencies build daily living skills useful in a broad range of future endeavours and careers.

The eight icons that appear here indicate to students and facilitators that a basic competency has been identified in the activity offered to the students. Not all of the icons appear in each module.

Resources

In order to successfully complete FIN 1020 you will need access to the following resources:

- a notebook or binder in which to respond to the questions asked in this Student Module Booklet
- your local library

Note that you may be required as part of this course to do outside research and to meet with business people in your community. If you have access to a computer, you may find it helpful.

Visual Cues

In addition to the Career and Technology Studies basic competencies icons described earlier, you may find visual cues throughout the Student Module Booklet to assist you in your studies. Read the following explanations to discover what each icon prompts you to do.

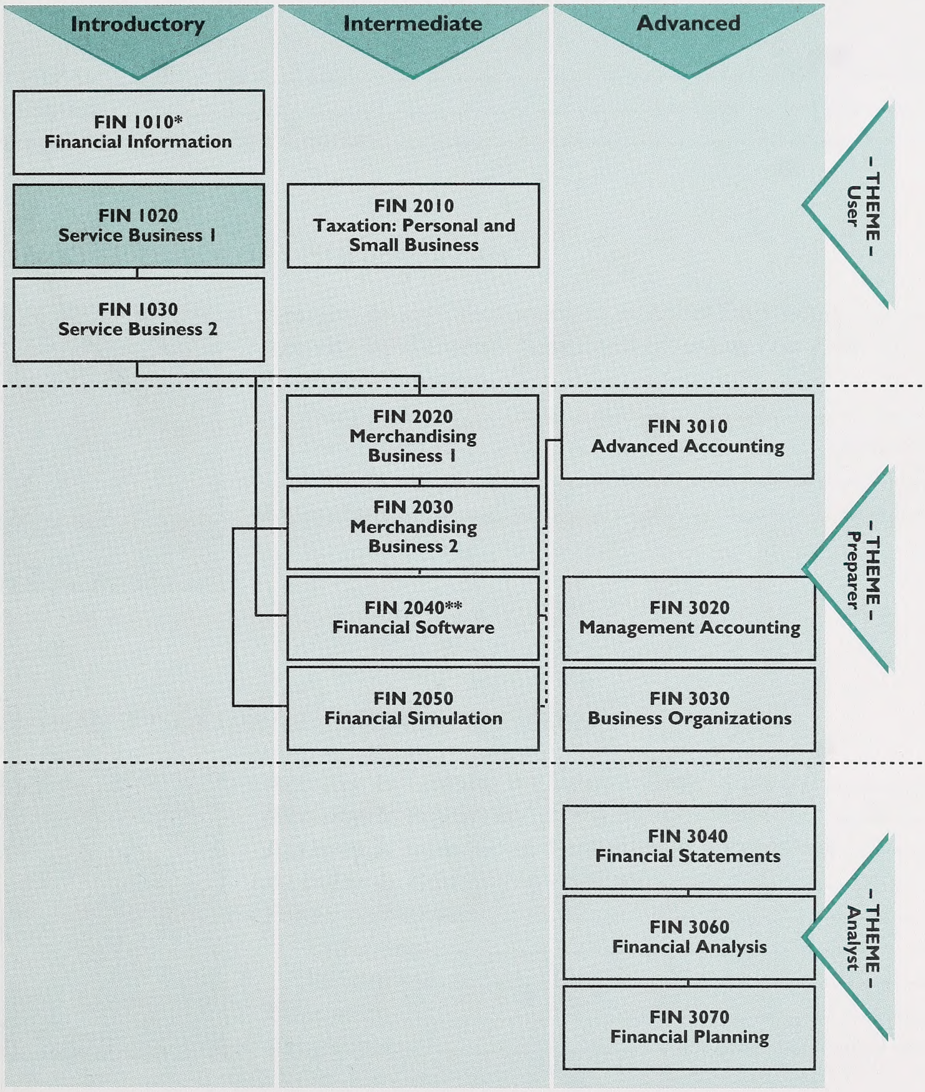
Use your calculator.

This icon indicates important information.

View a videocassette.

Financial Management

O · V · E · R · V · I · E · W



* Prerequisite to all modules in strand
** Available in Macintosh and Windows versions
— Prerequisite
--- Recommended sequence

Some of these modules may not yet be in a distance learning format.

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C · O · N · T · E · N · T · S

Section 3: Ledgers

Section 4: Journals

Section 5: The Trial Balance

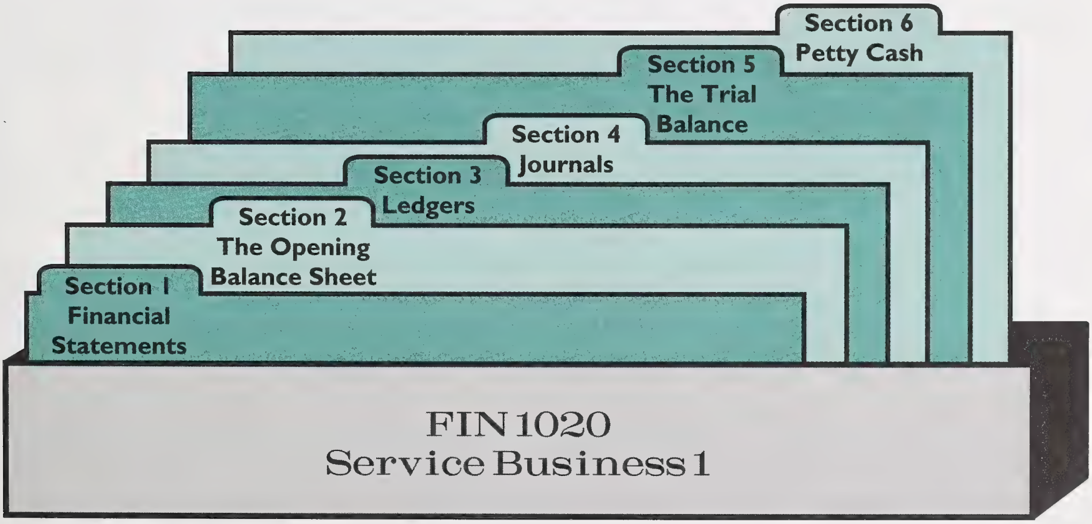
Section 6: Petty Cash

Service Business 1

O • V • E • R • V • I • E • W

In Financial Management 1010 you were introduced to Gio and Christina, who both worked at the Villager Pizzaria. It seemed as though Gio was always short of money and Christina was always able to purchase whatever she desired. They both earned the same salaries; however, Christina was able to control her money because she kept track of her spending. That is, she wrote down how she spent her money, and she put aside money for special events. This tracking, writing down, and setting aside is what financial institutions call *accounting*. For an individual like Gio, accounting is optional. However, if you plan to operate a business, then accounting is crucial, and required by law.

In this course you will be introduced to the accounting cycle by completing accounting entries. You will establish a set of books and record business transactions. Terminology unique to financial accounting will be introduced. At the conclusion of this course you will be able to open a set of accounting books, record entries, and balance the books to the trial balance stage for a service business. Skills in operating a petty cash fund will also be introduced. These skills are transferable to your personal accounting.



Assessment

The document you are presently reading is called a Student Module Booklet. It will show you, step by step, what to do and how to do it.

This course, Service Business 1, is worth one credit. The course is comprised of six sections. Within each section, your work is grouped into activities. Within the activities, there are readings, explanations, and questions for you to work through. You will correct these activities yourself using the Appendix at the end of this Student Module Booklet. These suggested answers will provide you with immediate feedback on your progress.

A portion of your grade in this course will be based on the assignments that you complete for assessment. There is one assignment after each section. The mark distribution is as follows:

Assignment Booklet A	
Section 1 Assignment	**28 marks**
Section 2 Assignment	**37 marks**
Section 3 Assignment	**40 marks**
Assignment Booklet B	
Section 4 Assignment	**45 marks**
Section 5 Assignment	**25 marks**
Section 6 Assignment	**25 marks**
TOTAL	**200 marks**

The CTS courses are competency based, which means that you must successfully complete each section to receive credit for the course.

In addition, you might also be required to complete a final test. The weighting for this final test will be determined by your teacher.

Strategies for Completing a Course

Organize your materials and work area before you begin: Student Module Booklet, notebook, pens, pencils, and so on. Make sure you have a quiet area in which to work, away from distractions.

Because response lines are not provided in the Student Module Booklet, you'll need a notebook or lined paper to respond to questions and complete charts. It's important to keep your lined paper handy as you work through the material and to keep your responses together in a notebook or binder for review purposes later.

To achieve success in this course, be sure to read all of the instructions carefully and work slowly and systematically through the material. Remember, it's the work you do in this Student Module Booklet that will prepare you for your assignments. Try to set realistic goals for yourself each day; and when you've set them, stick to them. Do your assignments regularly, and don't forget to review your work before handing it in. Careful work habits will greatly increase your chances for success in Financial Management.

Good luck!

SECTION 1

Financial Statements

SONJA operates a successful greenhouse business from her acreage. She uses the cash from one week's sales to purchase the supplies for the following week. The money that is left over is her profit.

Sonja's business is doing so well that she wants to open a flower shop in the new mall downtown. The bank is asking to see her financial statements: a balance sheet, an income statement, a list of accounts receivable, and a list of accounts payable. Sonja is worried because she doesn't keep any financial statements and she isn't sure how to start pulling the required information together.

Would you be able to help Sonja prepare her financial statements?

This section will introduce you to the concept of financial statements and several generally accepted accounting principles (GAAPs) that you will need to know to begin your studies of financial management.

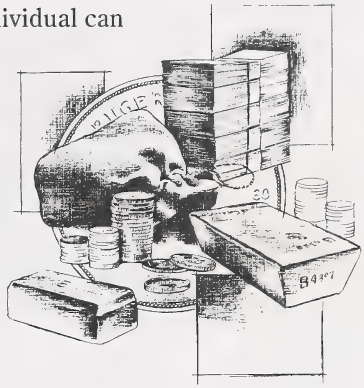
ACTIVITY 1

An Introduction to Financial Statements

There are certain formalities that must be observed in the preparation of all financial statements. Take a look at them now.

Formalities of Preparing Statements
A financial statement must have a heading that includes the name of the company, the name of the statement, and the date or fiscal period covered. The format of the date changes with the type of statement being prepared.
All subheadings in the body of the statement are indented (approximately 6 mm) from the title they refer to.
A single line must be drawn before a total to show that a total follows.
A double line must be drawn after final totals to show that the totals are complete and accurate.
Neatness is essential in accounting. Lines must be drawn straight.
All accounting should be done in ink; however, for this course, you may use pencil. If doing work in pen, errors must be corrected by drawing a neat, straight line through the error with the correction inserted **above** the error. Correction fluid is not allowed when doing manual accounting.
All numbers must be written at the same level on the line. This, in part, allows for corrections to be placed above the errors.
If a statement is presented in unruled format, a dollar sign precedes the first item and the final total in each column.
A space is used to separate groups of digits within a number if the number has more than four digits in it. For example, 1000 may be written as 1 000, but 10 000 must have the space. If using an electronic accounting program, spaces may be omitted when inputting the data if the program automatically inserts these spaces (or commas).
Abbreviations are not allowed on formal financial statements. Sometimes a second line must be used. It is indented, as are all subtitle lines.
Account titles used on each statement must appear in the same order as they appear numerically in the chart of accounts.

When operating a small business from home, an individual can survive with limited financial management skills. Should the business grow, however, the owner will require financial management skills or access to a professional who can provide financial management advice.



The purpose of financial accounting is to keep track of a company's resources and prepare financial reports that outline the financial success or failure of the business. Business survival depends on the surplus of revenue over expenses, or, in other words, the amount of **profit**.

profit: *the excess of revenue over expenditures*

financial statements: *accounting documents prepared to organize the financial picture of a company*

To know how profitable a business is at any given time, an accounting system is required to keep track of all business transactions. The results of this tracking are recorded in **financial statements.**

How Is the Patient Doing?

Gerald had been suffering from a cold and a fever for days. Finally, at his family's insistence, Gerald went to see his family doctor.

Dr. Giletti asked Gerald for information about his illness: how long he had been ill and the symptoms of his illness. He then developed a history of the illness based on what Gerald told him and his knowledge of Gerald's past medical problems. In addition, Dr. Giletti performed standard tests on Gerald: blood pressure, temperature, and blood tests. The doctor combined the results from these tests with the history of Gerald's illness and his knowledge of medicine to develop an evaluation of what was wrong with Gerald.

balance sheet: *a statement that shows the value of the assets, liabilities, and owner's equity of a business at a specific time*

income statement: *a statement that summarizes the revenue and expenses for a fiscal period*

statement of change in owner's equity: *a statement that indicates how the financial standing of the owner has changed over the period being reviewed*

Financial statements can be compared to a medical examination for a business. The accountant requires the history of the business, the current financial situation of the business, and a knowledge of the local economy. In Financial Management 1010 you examined the impact of the economic environment on financial decisions. This is a crucial part of any financial analysis.

Three statements are standard components of financial statements. The first is the **balance sheet**, which shows the financial standing of a business at a specific point in time. The second common financial statement is the **income statement**. It summarizes revenue and expense transactions over a period of time called a fiscal period. The third standard financial statement is the **statement of change in owner's equity**, which indicates how the financial standing of the owner has increased or decreased over the period being reviewed. In this course you will examine the balance sheet. The other two financial statements will be studied in FIN 1030: Service Business 2.

revenue: *an increase in the owner's equity brought about by the normal operations of a business*

expense: *a cost incurred by a business for the purpose of generating revenue*

net income: *the figure resulting when revenues are greater than expenses*

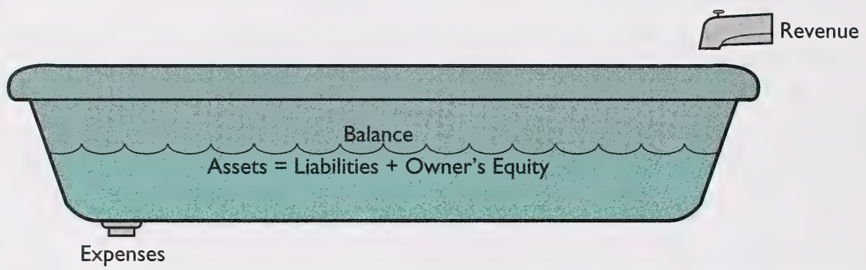
net loss: *the figure resulting when expenses are greater than revenues*

How Are Financial Statements Related?

A business begins operation by completing an opening balance sheet. The balance sheet outlines the **assets: anything of value owned by a business**, **liabilities: amounts owed to someone outside of the business**, and owner's **equity: financial claims on the assets of a business, creditors have a claim on the assets (creditor's equity); owners have claims on the assets (owner's equity)** in the business at a particular point in time. Liabilities are the creditors' claims against the assets of the business. Owner's Equity, or capital, is the owner's claim against the assets of the business after the creditors have been paid.

Once the business begins operating, an income statement is developed. The income statement shows the **revenue** and **expenses** of the business, and either the **net income** (if the revenue is greater than the expenses) or the **net loss** (if the expenses are greater than the revenue).

A Business Before It Opens



The illustration of the bathtub shows the financial status of the business before business operations begin. No revenue is coming in yet because there have been no sales. Likewise, there will be no expenses until business operations begin. At this point, the balance (water level) is determined by the assets (cash, building, vehicles, equipment), liabilities (what is owed to the bank and other creditors), and owner's equity.

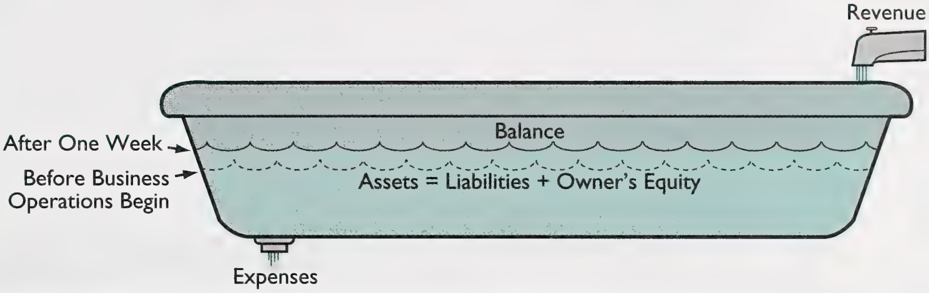
The formula below is called the **Fundamental Accounting Equation**.

Assets = Liabilities + Owner's Equity

Regardless of what financial events occur, assets must always equal liabilities plus owner's equity.

Now look at what happens when business operations begin. Revenue is coming in now that sales are being made. At the same time, expenses increase; the owner now has to pay employees' wages and expenses for rent, utilities, and supplies. If the business is successful, revenues will be greater than expenses, and the balance (water level) will be higher than what it was before business operations began. If expenses are greater than revenue, the balance (water level) will be lower than it was before business operations began.

A Business After One Week of Operation



1. If the assets of the company increase, what will happen to the "level" in the bathtub?

   A. It will be higher.
   B. It will be lower.
   C. The "level" will not change.

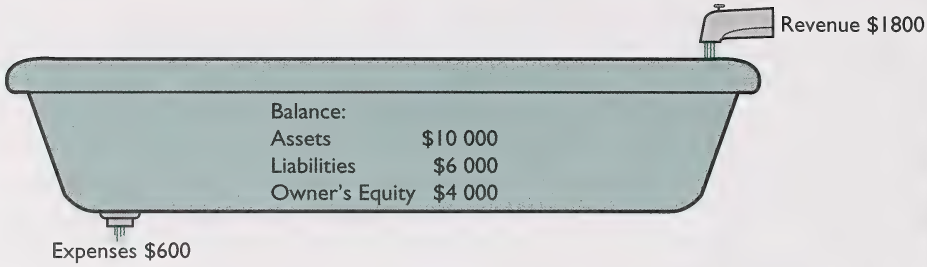
2. If the revenue is greater than the expenses, what will happen to the "water level" in the bathtub?

   A. It will increase because assets will increase.
   B. It will decrease because assets will decrease.
   C. The "water level" will not change.

3. If the owner of the business tosses in an extra bucket of "water," what will happen to the "water level" in the bathtub?

   A. It will increase because assets will increase as the owner's equity increases.
   B. It will decrease because liabilities will increase.
   C. The water level will not change.

4. Look at the illustration and answer the questions that follow.



a. If the revenue is $1800 and the expenses for the month are $600, what is the net income?

b. What effect will question 4.a. have on the asset balance at the end of the month?

Compare your responses with those in the Appendix, Section 1: Activity 1.

fiscal period: *the period of time over which earnings are measured*

The balance sheet and the income statement both provide useful information to the owner of the business. The balance sheet indicates the company's worth on a specific day. The income statement reports the revenue and the expenses for the **fiscal period** (for example, a month).

Remember, the details of the balance sheet will be examined in Section 2 of this course, and the income statement will be studied in FIN 1030. This first activity has introduced you to financial statements. The next activity will introduce you to the Generally Accepted Accounting Principles.

ACTIVITY 2

Generally Accepted Accounting Principles

Jason and Rachelle are newly married, and, after a brief honeymoon, are settling into their new apartment and their new routine. Jason has always helped with the household chores at home, and feels competent to continue with his domestic skills. The first evening home, Jason is helping Rachelle clean up after dinner. He notices that she puts the wash water in the left sink and the rinse basin in the right sink.

"That's wrong, honey," comments Jason. "You always wash dishes from right to left."

"Who told you that?" asks Rachelle. "At our house, the dishes were always done this way."

Rachelle and Jason then begin to examine why they disagree on this simple subject. It turns out that Jason's mother, who handles most of the dish duties at their home, is left-handed, and prefers washing the dishes right to left. Rachelle is right-handed and prefers washing the dishes left to right. Rachelle and Jason decide that they will wash the dishes from left to right because the storage area for the clean dishes is on the right. This will make it easier to put away the clean dishes.

Jason and Rachelle have begun developing standards of behavior in their household. This will help them to make decisions, both big and small, as their marriage develops.

Accountants also follow principles and prescribed guidelines to assist them in thei work. These are called Generally Accepted Accounting Principles (or GAAPs). These principles were developed as a result of the increased use of accounting by corporations, and the need for all corporations to follow basic guidelines. Many o the Generally Accepted Accounting Principles overlap with the Accountants' Code of Ethics that you covered briefly in Financial Management 1010.

auditor: *a professional accountant who deals with analysis of books and records*

In Canada, the Canada Business Corporation Act and the corresponding statutes o the various provinces demand the use of the term *Generally Accepted Accounting Principles* in the formal wording for reports presented at the annual meetings of shareholders. The statement is incorporated in the **auditor's** statement. The wording may be similar to the following:

> In our opinion, the accompanying balance sheet and income statement present fairly the financial position of Anchors Fisheries as at December 31, 20xx, and the results of its operations for the year then ended, in conformity with Generally Accepted Accounting Principles applied on a basis consistent with that of the preceding year.

Following are some of the Generally Accepted Accounting Principles.

The Business Entity Concept

The Business Entity Concept provides that the accounting for a business or organization be kept separate from the personal affairs of its owner, or from any other business or organization. This means that the owner of a business should not place any personal assets on the business balance sheet. The balance sheet of the business must reflect the financial position of the business alone.

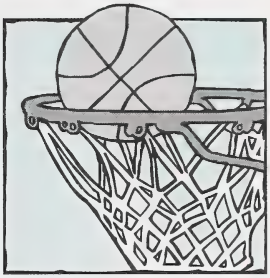
Ethics

1. Catherine operates a tow-truck business from her home. She has renovated her garage to allow for the additional truck and has installed an extra phone line in her home for business purposes. Catherine would like to renovate her family room, and she has purchased materials and supplies to do these renovations. Her friend, Harley, has suggested that she include the expenses for the family room in her business expenses. "No one will notice," suggested Harley. Catherine ha her accounting done by a local accountant. What would the accountant say about this? Record your answer in your notebook.

The Going-Concern Concept

The Going-Concern Concept assumes that a business will continue to operate and have a long life. This means that the business will not cease to operate immediately after commencing business. The assets belonging to a business that is alive and well are relatively easy to value.

2. FitKings Recreation Centre has applied to their bank for a loan to renovate their building. They have asked for $100 000, and plan to upgrade the carpeting and furnishings in the building. The bank advanced the money to the company and, three weeks later, the company ceased operations, leaving unpaid bills. Would the bank have loaned the funds if they had known that FitKings was going out of business? Record your answer in your notebook.



The Principle of Conservatism

The Principle of Conservatism provides that accounting for a business should be fair and reasonable. Accountants are required in their work to make evaluations and estimates, to deliver opinions, and to select procedures. They should do so in a way that neither overstates nor understates the affairs of the business or the results of operation.

3. Fielding Software has an inventory of 2000 software packages that have an inventory price of $149 each. Since the development of this software, a competitor has developed a similar product with a retail price of $129. What value should Fielding Software list their software at when recording it in their books—at $149 or $129? Record your answer in your notebook.

The Principle of Objectivity

The Principle of Objectivity states that accounting will be recorded on the basis of objective evidence. Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction. Simply put, this means that accounting entries will be based on fact and not on personal opinions or feelings.

4. Hans does consulting for medical offices. He reviews the office computer system and staffing, and recommends changes to the system. Hans normally charges $200 an hour. A competitor has arrived on the scene who charges $150 an hour for similar services. Hans normally bills approximately 200 hou a month, but he has noticed that for the past few months, his hours have dropped to 185. The bank that finances the business has asked for an update financial statement. What should Hans state as his average anticipated incom in hours: 185 or 200? Record your answer in your notebook.

Compare your responses with those in the Appendix, Section 1: Activity 2.

The Time Period Concept

The Time Period Concept says that accounting takes place over specific time periods known as fiscal periods. These fiscal periods are of equal length, and are used when measuring the financial progress of a business.

5. Mira began her tea house business on April 1 of 20xx. After four months of operation, her accountant prepared financial statements, which reflected the status of the company as at July 31, 20xx. Five months later, at the end of December, Mira has financial statements prepared again, and is comparing th revenue and expenses from the first period to the second. What is wrong wit Mira's analysis? Record your answer in your notebook.

The Matching Principle

The Matching Principle states that each expense item related to revenue earned must be recorded in the same accounting period as the revenue it helped to earn. If this is not done, the financial statements will not measure the results of operations fairly.

6. Jim is a sign painter. On April 26 he purchased enough paint and other suppli to do several signs. He earned $3600 from the sale of two signs he painted in May. In April he recorded the cost of the paint and other supplies as an expense. However he earned no income using these supplies during that month. What is wrong with Jim's accounting? Record your answer in your notebook.

The Cost Principle

The Cost Principle states that the accounting for purchases must be at their cost price. This is the figure that appears on the source document for the transaction in almost all cases. There is no place for guesswork or wishful thinking when accounting for purchases. The value recorded in the accounts for an asset is not changed later if the market value of the asset changes. It would take an entirely new transaction based on new objective evidence to change the original value of an asset.

7. Carolyn has opened a tanning studio. As a gift to her, her family bought lovely white wicker furniture for the waiting area of the business. At the end of the year, when doing her financial statement, the accountant asked Carolyn to value the assets. Carolyn stated that the furniture was a gift and therefore should not be included. What is wrong with Carolyn's logic? Record your answer in your notebook.

The Full Disclosure Principle

The Full Disclosure Principle states that any and all information that affects the full understanding of a company's financial statements must be included with the financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes. Examples of such items are outstanding lawsuits, tax disputes, and company takeovers.

Ethics

8. Ron and Peggy Thompson operate a furniture refinishing business, ReNue Finishers. They share equally in the profits of the business, although Ron is the skilled craftsman and Peggy handles the management of the business. Ron and Peggy have been having marital problems, and they have decided to separate and go their own ways in the new year. They have two bank loans, and their financial statements are to be audited and provided to the bank at the end of the year. The Thompsons have decided not to let the bank know what is happening in their personal lives. Is this correct? Record your answer in your notebook.

Compare your responses with those in the Appendix, Section 1: Activity 2.

You have examined some of the Generally Accepted Accounting Principles, known as GAAPs, in this activity. This is a brief overview of the principles—there are many more detailed principles involved in the accounting profession.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of th concepts, it is recommended that you do the Enrichment.

Extra Help

The purpose of financial accounting is to allow the business owner to keep track o the expenditures and income from the business and know whether the business i making any profit. The two basic statements that are fundamental to financial statements are the balance sheet and the income statement. The balance sheet shows the assets, liabilities, and owner's equity of the business on a specific date. The income statement indicates the revenue, the expenses, and the net income earned over a period of time. These two statements together combine to form a financial picture of the business.

In addition to the financial statements, accountants follow prescribed guidelines t help them make sound financial decisions. These guidelines are called Generally Accepted Accounting Principles, and are set out as standards by the professional accounting associations to assist accountants in operating as a standard professio

1. Laura's Laundromat, owned by Laura Smithers, has assets of cash, $2600; building, $40 000; delivery truck, $7000; and equipment, $28 000. The compa owes $31 000 on a bank loan and $12 000 to Equipment Supply Company. On the following form, calculate the company's total assets, total liabilities, and th owner's equity. Calculate the owner's equity by subtracting the total liabilitie from the total assets.

Assets	**Liabilities**	**Owner's Equity**
Total Assets	–Total Liabilities	=Owner's Equity

Compare your responses with those in the Appendix, Section 1: Extra Help.

Ethics

2. The manager of a business has heard that the business might be sold and that he might lose his job as a result. When preparing a balance sheet for the owner, the manager values everything as low as possible in order to discourage the prospective buyer. He claims that this practice is allowed by the Principle of Conservatism.

   a. Is the manager correct in his claim?
   b. What GAAPs affect this situation? Explain.

Compare your responses with those in the Appendix, Section 1: Extra Help.

Enrichment

1. Shown below is the balance sheet of Reggie Chernicka. Based on the information provided, would you say that Reggie has any kind of a financial problem?

Reggie Chernicka			
BALANCE SHEET			
January 31, 20xx			
Assets		*Liabilities*	
Cash	6 000 00	*Accounts Payable*	35 000 00
Accounts Receivable	14 000 00	*Mortgage Payable*	60 000 00
Land	40 000 00	*Total Liabilities*	95 000 00
Buildings	95 000 00		
Equipment	25 000 00	*Owner's Equity*	
		Reggie Chernicka, Capital	85 000 00
Total Assets	180 000 00	*Total Liabilities and Owner's Equity*	180 000 00

2. A figure for computerized office equipment appears on a company's balance sheet. Recently, better quality equipment has been developed and put on the market. However, the existing equipment still does an adequate job for the company, and the company has no intention of replacing it.

   a. Should the equipment figure be eliminated because it represents obsolete equipment?

   b. Which GAAPs affect this situation? Explain.

Compare your responses with those in the Appendix, Section 1: Enrichment.

CONCLUSION

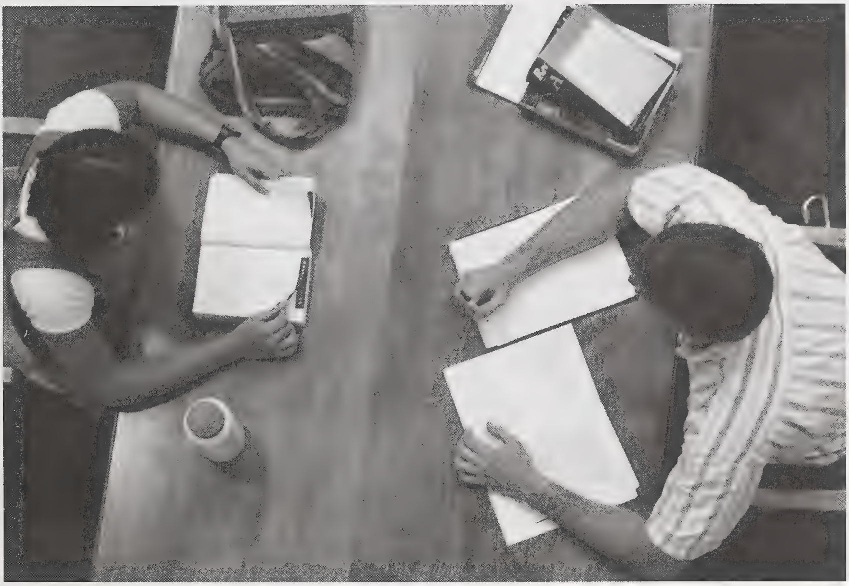
At the beginning of this section you were introduced to Sonja, who was operating greenhouse business from her acreage. Sonja required basic accounting information to help her meet the growing needs of her company. You have now been introduced to financial statements and the role that they play in the accounting cycle. Also you have begun to understand the Generally Accepted Accounting Principles, the rules and principles that all professional accountants follow.

You are now ready to begin the accounting cycle, which begins with the opening balance sheet.

ASSIGNMENT

Turn to Assignment Booklet A and do the assignment for Section 1.

The Opening Balance Sheet



CORINNA and Stephan plunked down to begin the task of making out a will for their law class. Corinna felt she had nothing to leave anyone. Stephan has a stereo, a car, and $100 bonds, which his grandma gives him every Christmas. He now has five of those bonds. He also has $75 in the bank.

"Wait a minute!" says Corinna. "You borrowed $50 from me last month and you also owe your parents $1500 for the payment they made on your car."

"That's true," sighed Stephan. "I guess I'm not worth as much as I thought."

In this section you will examine the opening balance sheet of a business and be introduced to the double-entry system of recording transactions. You will also learn about using electronic spreadsheets.

ACTIVITY 1

Defining the Balance Sheet

In the opening scenario, Stephan was on the right track in separating what he own from what he owes. Look at what Stephan owns.

Car (what he paid for it)	$ 2000
Stereo (what he paid for it)	1500
CDs and Tapes (estimate)	300
Clothes (estimate)	2000
Sports Equipment (estimate)	1200
Canada Savings Bonds (not including interest)	500
Cash in Bank	75
Total Assets	$ 7575

The items that Stephan owns are **assets**. Even if there is a debt against one of the items (such as the money owed to Stephan's parents for his car) the full price of the asset is recorded according to the Cost Principle. Notice how many of the items are estimates only. These estimates should be recorded at a lower value, as they are now used.

1. What GAAP is being adhered to by costing the estimates at a low value?

Compare your responses with those in the Appendix, Section 2: Activity 1.

Now look at what Stephan owes.

Money Owed to His Parents	$ 1500
Money Owed to Corinna	50
Total Liabilities	$ 1550

The money that Stephan owes (his debts) are **liabilities**.

The difference between what Stephan owns (assets) and his debts (liabilities) is what Stephan is worth (**equity**).

7575	–	1550	=	6025
Assets		Liabilities		Owner's Equity

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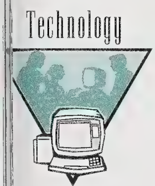
In calculating Stephan's worth, the concept of **financial position** is used. Financial position is the concept of determining the value of the assets, the liabilities, and the investment by the owner (in this case, Stephan). Financial position can apply either to a business or to an individual person.

The financial position is commonly expressed as the Fundamental Accounting Equation.

2. List all your personal assets and liabilities. Subtract the liabilities from the assets and determine your equity. Are most of your assets personal property that require an estimate (such as clothes and possessions), or do you have assets in the form of cash or bonds that have a fixed value?

Compare your responses with those in the Appendix, Section 2: Activity 1.



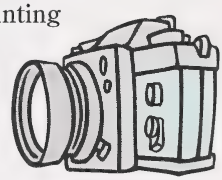
Before a business begins operation, the owner or owners must establish an opening balance sheet. Now that you are familiar with the contents of the balance sheet, the next activity will introduce to you the format of the balance sheet.

ACTIVITY 2

Preparation of the Balance Sheet

A balance sheet is like a snap shot of a business at a certain point in time.

The balance sheet is a detailed report or statement of the accounting equation listing the assets, the liabilities, and the owner's equity at a specific point in time.



The balance sheet always states the financial position on a specific date. The balance sheet for October 31, 20xx may be quite different from the one prepared for November 1, 20xx.

A formal balance sheet is prepared and written in a standard format. The balance sheet of a large multinational company may have a more complex format, but the main section titles would be the same as the balance sheet for a small, privately owned business: assets, liabilities, and owner's equity.

How often are balance sheets prepared for a business? Most businesses like to prepare statements monthly, quarterly, or semi-annually, even though they are on required by law once a year.

Sections of a Balance Sheet

Like all financial statements, the balance sheet should be easy to read. A standar format should be followed, keeping each of the three sections separate whether the report is presented horizontally (as shown here) or vertically (as shown in other Financial Management courses).

The financial information for Stephan has been placed in a balance sheet format.

		Stephan Spencer	
	1	*BALANCE SHEET*	
		September 30, 20xx	
2 *Assets*		3 *Liabilities*	
Cash	75 00	*Accounts Payable:*	
Canada Savings Bonds	500 00	*Parents*	1500
Car	2000 00	*Corinna*	50
Stereo	1500 00	*Total Liabilities*	1550
CDs and Tapes	300 00		
Sports Equipment	1200 00	4 *Owner's Equity*	
Clothing	2000 00	*Stephan Spencer, Capital*	6025
Total Assets	7575 00	*Total Liabilities and Owner's Equity*	7575

1 The Heading

The heading of a balance sheet should follow the same format of all financial statements:

- **Who?** On the first line, centre the name of the business or individual. In th case, we see Stephan Spencer's name at the top. However, if Stephan owne a company called Bottles Unlimited, the company name would appear at the top and Stephan's name would appear under the owner's equity section.
- **What?** On the second line, centre the name of the financial statement. The name of the financial statement must be in capital letters.
- **When?** On the third line, centre the date. The balance sheet shows the financial position of the company on a specific date. You may write the wor *As at* in the date line to indicate that the information is for a specific date.

1. Why is the date important on all financial statements?

Compare your responses with those in the Appendix, Section 2: Activity 2.

2 The Assets

Stephan	
BALANCE	
September	
Assets	
Cash	75 00
Canada Savings Bonds	500 00
Car	2000 00
Stereo	1500 00
CDs and Tapes	300 00
Sports Equipment	1200 00
Clothing	2000 00
Total Assets	7575 00

quidity: *the se with which sets can be nverted to cash*

e most liquid set is cash.

counts ceivable: *nounts owed to business by stomers*

Since assets apear on the left side of the Fundamental Accounting Equation, they are placed on the left side of the body of the statement. The title, Assets, must be centred on the first line of this section. The balance sheet follows the Fundamental Accounting Equation in format. In the Assets section, the account titles are listed in order of their **liquidity**. Since cash is the most liquid asset, it is always listed first. Cash is then followed by **accounts receivable.** You would use this account if someone owed money to you. Accounts receivable are considered to be very liquid, because most businesses expect to collect the cash from customers within 30 days. More permanent items, or fixed assets, are listed last because they are usually less liquid. Land and buildings are usually listed before other fixed assets, such as equipment, machinery, and vehicles.

The total of the assets is placed below the list of assets and must appear on the same line as Total Liabilities and Owner's Equity, which appears on the right side of the balance sheet. Draw a single rule above and a double rule below the assets total. The double rule shows that the total is final, balanced, and correct.

Note: Dollar signs are not used on ruled forms. If the statement is presented on an unruled form, a dollar sign should be placed before the first item in the list and beside the final total.

3 The Liabilities

Spencer		
SHEET		
30, 20xx		
Liabilities		
Accounts Payable:		
Parents	*1500*	*00*
Corinna	*50*	*00*
Total Liabilities	*1550*	*00*

The title, Liabilities, must be centred on the first line of this section. The liabilities are listed i order of due date. Demand bank loans should be listed first, followe by accounts payable; then long-ter loans, such as mortgages, should be listed. You may list the accoun payable in one category using the heading "Accounts Payable:"; or y may list each individual account payable with the words *Accounts Payable*, such as "Accounts Payable, Parents" or "Parents, Accounts Payable."

The total of the libabilities is placed immediately after the last liability in the list. Draw a single rule above the liabilities total.

4 The Owner's Equity

Owner's Equity	
Stephan Spencer, Capital	*6025*
Total Liabilities and Owner's Equity	*7575*

The owner's equity section is also listed on the right side of the balance sheet. The title, Owner's Equity must be centred on a line that is at least one blank line below Total Liabilities. Arrange the spacing so that Total Liabilities and Owner's Equity is on the same line as Total Assets. The owner's equity section shows the owner's name, which may differ from the name of the business. Write the name of the owner followed by a comm and the word *Capital*, which is the account that records the owner's total investment in the business.

To calculate the owner's equity, use the following equation:

$$\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$$

Write the words *Total Liabilities and Owner's Equity* on the line showing that tot

Note: Use two lines if there is insufficient room. Recall that abbreviations are n allowed on formal statements.

2. What will happen to a company balance sheet if the liabilities are greater tha the assets?

Compare your responses with those in the Appendix, Section 2: Activity 2.

Balance the Statement

Does the balance sheet balance? Add the amounts on each side. Does the total of the assets equal the total of the liabilities plus the owner's equity? If they do not, check your numbers and check your addition.

The final totals for both sides should be shown on the same line immediately following the item that is furthest down the form. Draw a single rule above the total of your assets. Draw a double rule below the final totals. Write *Total Assets* on the line showing the total assets. Write *Total Liabilities and Owner's Equity* on the line showing that total.

A single line shows that a total follows; a double line shows that the total is complete and balanced.

	Stephan Spencer		
	BALANCE SHEET		
	September 30, 20xx		
Assets		*Liabilities*	
Cash	75 00	*Accounts Payable:*	
Canada Savings Bonds	500 00	*Parents*	1500 00
Car	2000 00	*Corinna*	50 00
Stereo	1500 00	*Total Liabilities*	1550 00
CDs and Tapes	300 00		
Sports Equipment	1200 00	*Owner's Equity*	
Clothing	2000 00	*Stephan Spencer, Capital*	6025 00
Total Assets	7575 00	*Total Liabilities and Owner's Equity*	7575 00

What if you make an error in your work? Recall that you draw a neat, straight line through the error and write the correction above.

For example, what if Stephan's car was actually worth $1500 and his stereo was worth $2000? The correction would look as follows.

Stephan Spencer			
BALANCE SHEET			
September 30, 20xx			
Assets		*Liabilities*	
Cash	75 00	*Accounts Payable:*	
Canada Savings Bonds	500 00	*Parents*	1500 00
Car	1500 00 ~~2000 00~~	*Corinna*	50 00
Stereo	2000 00 ~~1500 00~~	*Total Liabilities*	1550 00
CDs and Tapes	300 00		
Sports Equipment	1200 00	*Owner's Equity*	
Clothing	2000 00	*Stephan Spencer, Capital*	6025 00
Total Assets	7575 00	*Total Liabilities and Owner's Equity*	7575 00

3. On January 31, 20xx, the assets and liabilities for Dr. Zimmerman were as follows: cash in bank, $9000; money due from patients (accounts receivable), $6000; money due from Alberta Health Care (accounts receivable), $14 000; supplies, $2000; equipment, $140 000; money owing to Pro-Speed Suppliers (accounts payable), $11 000; money owing to Dave's Janitorial (accounts payable), $2000; bank loan, $7000.

   a. Classify each item as an asset, liability, or owner's equity.

   b. Calculate the doctor's equity.

   c. Prepare a balance sheet on the following form.

4. Complete the following two balance sheets by filling in the missing amounts and words. There are eight items missing from each balance sheet.

a.

		Koch Moving and Storage				
		BALANCE SHEET				
		August 31, 20xx				
Cash		1 896	50	*Bank Loan*	60 000	00
Accounts Receivable:				*Mortgage Payable*	100 000	00
J. Radick	*2 500.00*				160 000	00
City Bank	*11 750.00*					
M. Unger	*1 565.00*					
Warehouse		137 500	00			
Truck		47 500	00			
Office Equipment		3 175	00	*Milas Popov,*	45 886	50
		205 886	50		205 886	50

b.

		CHOO T.V.			
		April 30, 20xx			
Assets			*Liabilities*		
Cash		*2 106.31*	*Bank Loan*		
			Accounts Payable:		
Gold's Furniture	*500.00*		*Rondar Interiors*	*2 500.00*	
B. J. Johnson			*Sound Centre*	*12 000.00*	
E. Lenko	*400.00*	*1 200.00*	*RSC*	*10 000.00*	*24 500.00*
Studio Equipment		*45 000.00*			*54 500.00*
Mobile Equipment		*27 000.00*			
Office Furnishings		*3 575.00*	*Owner's Equity*		
			Duke Farrell, Capital		*24 381.31*
		78 881.31			

Compare your responses with those in the Appendix, Section 2: Activity 2.

5. In your notebook, complete the Fundamental Accounting Equation for each of the following companies. Use your calculator.

Assets $ _________ = Liabilities $ _________ + Owner's Equity $ _________

a.

Douglas Company Ltd.

Assets		Liabilities	
Cash	$ 9 000.00	Accounts Payable	$4 000.00
Accounts Receivable	12 500.00	Bank Loan	8 000.00
Supplies	1 800.00		
Equipment	30 000.00		

b.

Fanci Foods Ltd.

Assets		Liabilities	
Cash	$ 7 500.00	Accounts Payable	$ 9 500.00
Accounts Receivable	17 000.00	Bank Loan	10 000.00
Office Supplies	720.00		
Office Equipment	12 450.00		

c.

Ortega Furniture Ltd.			
Assets		Liabilities	
Cash	$ 3 100.00	Accounts Payable	$13 250.00
Accounts Receivable	7 260.00	Bank Loan	5 000.00
Delivery Equipment	18 000.00		
Furniture	6 600.00		
Office Equipment	12 000.00		

6. Is it possible to have assets but not enough cash to pay your bills? Explain how this situation might happen. What could you do to correct it?

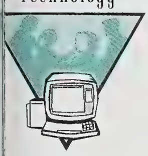
Compare your responses with those in the Appendix, Section 2: Activity 2.

Activity 2 introduced you to the balance sheet. The next activity will introduce you to an electronic spreadsheet, which you may find useful in financial management.

ACTIVITY 3

Introducing the Electronic Spreadsheet

Technology

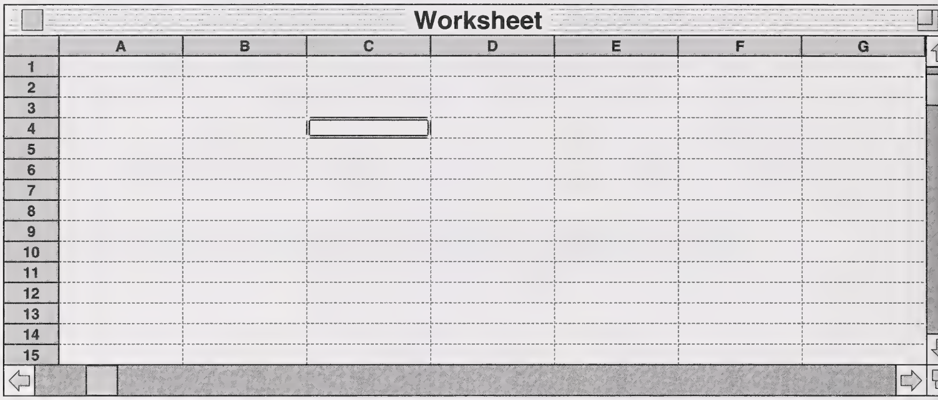


A spreadsheet is an electronic calculation tool. It is a computer tool that can perform functions that people generally do with pencil, paper, and calculators. It completes many of these functions automatically and allows you to print the results and make changes.

Spreadsheets can perform accounting tasks such as totalling and balancing journals, calculating taxes and discounts, and estimating profits and losses. In today's business world, spreadsheets are commonly used by all levels of workers.

In its simplest form, a spreadsheet consists of columns and rows. The columns are labelled horizontally A, B, C, and so on; the rows are numbered vertically 1, 2, 3, and so on. A location on a spreadsheet can be identified by describing its column and row position.

In the spreadsheet shown, cell C4 is highlighted. This cell is in column C, row 4.



Using an electronic spreadsheet in the preparation of financial statements increases productivity and eliminates much of the tedious aspect of accounting: the adding and subtracting of numbers.

Here are common terms that you will need to know in order to be able to use any spreadsheet program.

column: cells labelled alphabetically (A, B, C...) across the spreadsheet

row: cells labelled numerically (1, 2, 3...) down the spreadsheet

cells: Each rectangle in the grid is known as a cell.

cell address: the location of the cell, formed by combining the column label with the row label (B49, C2, G27)

cursor: the tool used to point to specific locations on the spreadsheet

label: text or combinations of text and numbers used for identification

formula: a built-in calculation to assist the user

For example, a formula might read "=B2+B3" to always provide a total of cell B2 and cell B3. The formula might read "=SUM(B2:B9)" to total cell B2 through to B9.

Following is a simple spreadsheet for the balance sheet for Billy's Burgers.

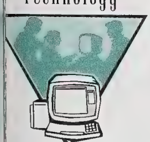
	A	B	C	E	F	G
1			**Billy's Burgers**			
2			**BALANCE SHEET**			
3			**November 30, 20xx**			
4						
5	**Assets**			**Liabilities**		
6	Cash		300.00	Bank Loan		8 000.00
7	Accounts Receivable:			Accounts Payable:		
8	K. Wells	40.00		Southern Supplies		1 300.00
9	R. Wilkinson	120.00	160.00	Mortgage Payable		62 000.00
10	Land		30 000.00	Total Liabilities		71 300.00
11	Building		80 000.00			
12	Equipment		7 000.00	**Owner's Equity**		
13				Billy Barton, Capital		46160.00
14	**Total Assets**		117 460.00	**Total Liabilities and Owner's Equity**		117 460.00
16						

Once a spreadsheet is formatted, it may be used over and over again simply by replacing the numbers and the account titles. Look at the following spreadsheet, which shows the formulas instead of the numbers in selected cells.

	A	B	C	E	F	G
1			**Billy's Burgers**			
2			**BALANCE SHEET**			
3			**November 30, 20xx**			
4						
5	**Assets**			**Liabilities**		
6	Cash		300.00	Bank Loan		8 000.00
7	Accounts Receivable:			Account Payable:		
8	K. Wells	40.00		Southern Supplies		1 300.00
9	R. Wilkinson	120.00	=SUM(B8+B9)	Mortgage Payable		62 000.00
10	Land		30 000.00	Total Liabilities		=SUM(G6:G9)
11	Building		80 000.00			
12	Equipment		7 000.00	**Owner's Equity**		
13				Billy Barton, Capital		=C14–G10
14	**Total Assets**		=SUM(C6:C12)	**Total Liabilities and Owner's Equity**		=G10+G13
16						

The formula in cell C9 reads "=SUM(B8+B9)." It will automatically find, the total of cells B8 and B9. The formula in cell C14 reads "=SUM(C6:C12)." The colon indicates that the addition will include all cells from C6 to C12. Two dots (..) or a comma (,) are other from/to indicators. Each program will have specialized features, formulas, or commands, but all spreadsheets can perform these simple functions.

Technology



For questions 1 through 3, you have the option of completing your answers manually (with paper and pen or pencil) or with a computer and spreadsheet program.

If you do not have access to a computer with a spreadsheet program, do Part A of each question. If you do have access to a computer with a spreadsheet program, do Part B of each question.

If you plan to use a computer and spreadsheet program to answer the following questions, set up a balance sheet template that will carry out the following tasks:

- list and total the company's assets
- list and total the company's liabilities
- subtract the liabilities from the assets
- print the Fundamental Accounting Equation and the value for each term in the equation

1. **Part A**

   Following are the assets and liabilities for Frank Trotta. Prepare a balance sheet on the form provided. Use the completed balance sheet for Finesse Hai Care as a guide. Be sure to find all the applicable totals (total assets, total liabilities, and total liabilities and owner's equity). Fill in the correct values fo the accounting equation when you have completed the balance sheet.

Finesse Hair Care			
BALANCE SHEET			
July 1, 20xx			
Assets		*Liabilities*	
Cash	*4 0 0 0 00*	*Bank Loan*	*10 0 0 0 0*
Accounts Receivable	*8 0 0 00*	*Total Liabilities*	*10 0 0 0 0*
Supplies	*1 9 0 0 00*		
Equipment	*18 2 0 0 00*	*Owner's Equity*	
		Sandy Johns, Capital	*14 9 0 0 0*
Total Assets	*24 9 0 0 00*	*Total Liabilities and Owner's Equity*	*24 9 0 0 0*

Frank Trotta

Assets

Cash	$27 445.00
Accounts Receivable	3 000.00
Supplies	730.00
Equipment	420.00

Liabilities

Bank Loan	$ 8 800.00
Accounts Payable	1 467.00
Mortgage Payable	6 000.00

Assets = Liabilities + Owner's Equity
$ ________ = $ ________ + $ ________

Part B

Use the list of assets and liabilities for Frank Trotta provided in Part A to prepare a balance sheet with a computer and spreadsheet program.

2. **Part A**

Following are the assets and liabilities for B. R. Burnett Ltd. Prepare a balance sheet on the form provided. Be sure to find all the applicable totals (total assets, total liabilities, and total liabilities and owner's equity). Fill in the correct values for the Fundamental Accounting Equation when you have completed the balance sheet.

B. R. Burnett Ltd.

Assets

Cash	$ 2 900.00
Accounts Receivable	7 100.00
Office Supplies	1 500.00
Office Equipment	12 000.00

Liabilities

Bank Loan	$11 000.00
Accounts Payable	6 900.00

Assets = Liabilities + Owner's Equity

$ ________ = $ ________ + $ ________

Part B

Use the list of assets and liabilities for B. R. Burnett Ltd. provided in Part A to prepare a balance sheet with a computer and spreadsheet program.

3. **Part A**

Following are the assets and liabilities for Drapes 'n' Shutters, owned by Carol Morgan. Prepare a balance sheet on the form provided. Be sure to find all the applicable totals (total assets, total liabilities, and total liabilities and owner's equity). Fill in the correct values for the accounting equation when you have completed the balance sheet.

Drapes 'n' Shutters	
Assets	
Cash	$ 4 332.75
Accounts Receivable	19 720.47
Office Supplies	370.00
Equipment	34 560.00
Liabilities	
Bank Loan	$14 954.00
Accounts Payable	11 949.00
Mortgage Payable	14 000.00

Assets	= Liabilities	+ Owner's Equity
$ ________	= $ ________	+ $ ________

Part B

Use the list of assets and liabilites for Drapes 'n' Shutters provided in Part A to prepare a balance sheet with a computer and spreadsheet program.

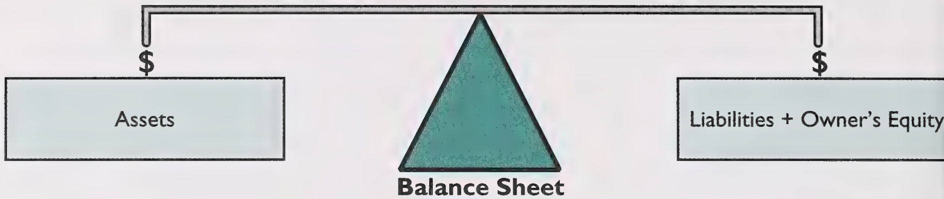
Compare your responses with those in the Appendix, Section 2: Activity 3.

You have now been introduced to an electronic spreadsheet. As you work through the Financial Management strand of studies, check to see if there are other places where a spreadsheet might help you.

The next activity will demonstrate how the financial position changes using the double-entry accounting system.

ACTIVITY 4

Double-Entry System



Imagine a perfectly balanced weigh scale. Whatever occurs on one side will affect the other side, since the scale must be kept in balance.

double-entry accounting: *Every transaction is recorded as a debit in one or more accounts and as a credit in one or more accounts.*

The Fundamental Accounting Equation is similar to a weigh scale. Whatever happens on one side of the equation may have an effect on the other side of the equation. This is referred to as the **double-entry accounting** system. Double-entry accounting is the system in which every transaction is recorded as a debit in one or more accounts and as a credit in one or more accounts. The total of the debits must equal the total of the credits so that the Fundamental Accounting Equation remains in balance.

Advantages of Double-Entry Accounting

- It is a method that provides a self-check. If your debits do not equal your credits, you can be sure you have made an error.

- Because there are at least two accounts that have been affected, you are recording at least two items of information.

transaction: *a financial event that affects two or more accounts of the business*

The balance of the Fundamental Accounting Equation is changed when a **transaction** occurs. A transaction is a financial event that changes balance-sheet accounts.

The following are some examples of transactions:

- A student purchased a burger from the school cafeteria for $2.25.

- A customer purchased a dress for $65 and the store grants her credit (accounts receivable).

- A hairdresser styles a woman's hair and the cost is $40.

How Are Transactions Recorded?

A balance sheet is prepared on a given date in the life of a business; however, it would be tedious to prepare a balance sheet every day. Accountants record transactions daily and then periodically prepare a balance sheet.

Look at how a transaction changes the balance sheet of a company. Below is a balance sheet for Finesse Hair Care.

Finesse Hair Care
BALANCE SHEET
July 1, 20xx

Assets			*Liabilities*		
Cash	*4000*	*00*	*Bank Loan*	*10000*	*00*
Accounts Receivable	*800*	*00*	*Total Liabilities*	*10000*	*00*
Supplies	*1900*	*00*			
Equipment	*18200*	*00*	*Owner's Equity*		
			Sandy Johns, Capital	*14900*	*00*
Total Assets	*24900*	*00*	*Total Liabilities and Owner's Equity*	*24900*	*00*

Now a hairdresser styles a woman's hair. The cost is $40.

The following balance sheet includes the changes caused by the $40 transaction. Note the changes to the following accounts: Cash, Total Assets, Sandy Johns, Capital, and Total Liabilities and Owner's Equity.

Finesse Hair Care
BALANCE SHEET
July 1, 20xx

Assets			*Liabilities*		
Cash	*4040*	*00*	*Bank Loan*	*10000*	*00*
Accounts Receivable	*800*	*00*	*Total Liabilities*	*10000*	*00*
Supplies	*1900*	*00*			
Equipment	*18200*	*00*	*Owner's Equity*		
			Sandy Johns, Capital	*14940*	*00*
Total Assets	*24940*	*00*	*Total Liabilities and Owner's Equity*	*24940*	*00*

As you can see, the total of the balance sheet has increased by $40 on *both* sides.

1. Below is the balance sheet for Friendly Repairs as of October 1, 20xx.

Friendly Repairs					
BALANCE SHEET					
October 1, 20xx					
Assets			*Liabilities*		
Cash	*1 900*	*00*	*Accounts Payable*	*1 500*	*0*
Accounts Receivable	*1 200*	*00*	*Bank Loan*	*2 000*	*0*
Equipment	*13 900*	*00*	*Total Liabilities*	*3 500*	*0*
			Owner's Equity		
			Carl Hayward, Capital	*13 500*	*0*
Total Assets	*17 000*	*00*	*Total Liabilities and Owner's Equity*	*17 000*	*0*

The following transactions caused change during the month of October:

a. Oct. 2 Received $90 cash from an accounts receivable. Update the affected balances.

Cash	from $1900	to	$________
Accounts Receivable	from $1200	to	$________

b. Oct. 3 Paid $500 cash to an accounts payable. Update the affected balance

Cash	from $________	to	$________
Accounts Payable	from $1500	to	$________

c. Oct. 4 Bought new equipment worth $200 (GST is included) on credit. Update the affected balances.

Equipment	from $13 900	to	$________
Accounts Payable	from $________	to	$________

$ Financial Update

d. Rewrite the balance sheet for Friendly Repairs as at October 5, 20xx. If you have access to an electronic spreadsheet, please use it here.

Compare your responses with those in the Appendix, Section 2: Activity 4.

T-Account Forms

T-account forms are partial skeletons of ledger-account forms that are used to record transactions to make sure the Fundamental Accounting Equation stays in balance. T-account forms are used in accounting courses to help you learn how to increase and decrease real ledger accounts and to find a balance after the transactions are recorded. They are also used by accountants to plan out complex journal entries before entering the transaction to the real records of the business.

T-account forms are used for rough work and are not part of the accounting records.

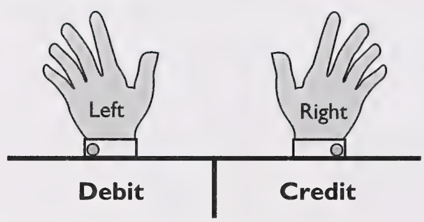
Cash	
1000.00	

Supplies	
500.00	

What Are Debits and Credits?

These terms are used by people, both in accounting and non-accounting circles. What do they mean?

Debit is the accounting term for the left side of an account. Credit is the accounting term for the right side of an account.



To ensure that all accounts balance, all debits must equal all credits. The short form of the word *debit* is DR or Dr., and the short form of the word *credit* is CR or Cr.

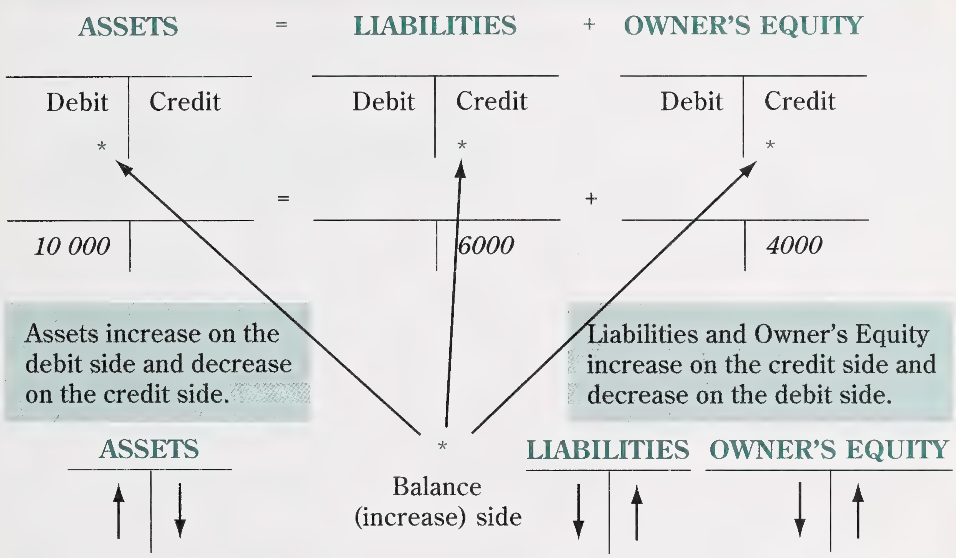
Accounts that appear on the left side (debit side) of the Fundamental Accounting Equation have their balance side on the debit side.

Accounts that appear on the right side (credit side) of the Fundamental Account Equation have their balance side on the credit side.

There are two rules to remember in accounting when recording any transaction:

To increase the value of any account, the dollar value is placed on the same side as the beginning balance.

To reduce any account balance, place the dollar amount on the opposite side of the beginning balance side.



Use the following example to guide you through the transactions on the next few pages.

Example

Received $90 from an account receivable.

Which accounts are affected?

Cash (Debit)	*Cash* (Credit)
Balance 1000.00	
+ 90.00	
= 1090.00	

Accounts Receivable (Debit)	*Accounts Receivable* (Credit)
Balance 960.00	
	– 90.00
= 870.00	

The two accounts affected are Cash and Accounts Receivable, because you are receiving $90 in cash as a payment on a customer's account.

How are the accounts classified?

Cash	
1000.00	
+ 90.00	
= 1090.00	

Accounts Receivable	
960.00	
	– 90.00
= 870.00	

The two accounts are both asset accounts. This means that they both have their balance on the debit side.

Remember:

Assets = Liabilities + Owner's Equity

How have the accounts been changed by the transaction?

Cash	increase	decrease
Balance	*1000.00*	
	90.00	
New Balance	*1090.00*	

Accounts Receivable	increase	decrease
Balance	*960.00*	
		90.00
New Balance	*870.00*	

The Cash balance has been increased by $90 to $1090.

The Accounts Receivable balance has been decreased by $90 to $870.

Do the debits still equal the credits?

Yes, the Cash account was debited by $90 and the Accounts Receivable was credited by $90.

Debit	=	Credit
$90	=	$90

Look at the following six transactions of Prather's Pitch and Putt and see how th are recorded in T-accounts.

Transaction 1: Received $500 cash from the owner, S. Prather, as an additional investment.

The asset, Cash, is increased by $500. Since cash is an asset and has a debit balance, the increase is recorded as a debit.

S. Prather, Capital is an owner's equity account; therefore, it has a credit balance. The increase is recorded as a credit.

As a result of S. Prather contributing more money to the business, her total investment is increased.

Asset

Cash	
500.00	

Owner's Equity

S. Prather, Capital	
	500.00

Transaction 2: Received a wheelbarrow from the owner, S. Prather, for use by the business. No cash is involved in this transaction, but the wheelbarrow is valued at $100.

In this case, the debit balance of the asset account Maintenance Equipment is increased by recording a debit. The credit balance of S. Prather, Capital, an owner's equity account, is increased by recording a credit.

Note: An owner can invest either cash or goods in the business.

Asset

Maintenance Equipment	
100.00	

Owner's Equity

S. Prather, Capital	
	100.00

Transaction 3: Paid $150 (including GST) cash for a calculator.

The decrease to Cash, an asset with a debit balance, is recorded as a credit. The increase to Office Machines, also an asset with a debit balance, is recorded as a debit.

Asset

Cash	
150.00	

Asset

Office Machines	
	150.00

Transaction 4: Purchased a new lawn mower for $400 on credit from Melcor Equipment Co.

Maintenance Equipment, an asset with a debit balance, is increased by a debit entry. Accounts Payable, Melcor Equipment Co., a liability with a credit balance, is increased with a credit entry. Prather's now owns more assets, but the debts or obligations to others have increased as well.

Asset | **Liability**

Maintenance Equipment	
400.00	

Accounts Payable, Melcor Equipment Co.	
	400.00

Transaction 5: Paid $200 cash to Southern Supply Company on account.

The asset, Cash, is decreased by $200. Since Cash is an asset and has a debit balance, the decrease is recorded as a credit.

The liability, Southern Supply Company, is decreased by $200. (Since Prather's has paid them $200, their debt has been reduced by $200.) Since the Southern Supply Company has a credit balance, the decrease is recorded as a debit.

Asset | **Liability**

Cash	
	200.00

Accounts Payable, Southern Supply Co.	
200.00	

Transaction 6: Received $100 cash on account from J. Sterling.

Cash has a debit balance and is increased by recording a debit. Accounts Receivable, J. Sterling also has a debit balance and is decreased by recording a credit. Prather's assets now include more cash, but the Accounts Receivable has been reduced as a result of the payment by J. Sterling.

Asset | **Asset**

Cash	
100.00	

Accounts Receivable, J. Sterling	
	100.00

drawings account: *an account used for recording the withdrawal of any asset from the business by the owner*

Owner's Drawings Account

The owner of a business invests cash and other assets, plus substantial time, in operating a business. Owners do not receive any interest or any salary on their investment. The owner's reward is the increase in owner's equity caused by income earned by the business.

When owners withdraw any asset from the business for personal use, owner's equity is decreased by the amount of the withdrawal. Owners often take cash out the business for personal use.

Rather than decreasing owner's equity by debiting the owner's capital account, record these decreases in the owner's drawing's account so that a clear record of these withdrawals can be kept separate from the owner's capital account.

You can think of the owner's capital account as the account that shows the owner's investment in the business.

You can think of the owner's drawings account as the account that shows the owner's de-investment in the business.

If the owners take $1000 out of the business for personal use, Drawings is debited and Cash is credited to decrease the asset cash.

Cash	
	1000.00

S. Prather, Drawings	
1000.00	

If the owner takes a desk worth $500 home and does not intend to return it to the business, then the business is poorer by one desk. Debit the S. Prather Drawings account to show the increase to total withdrawals, and credit the Office Furniture account to show the decrease to that asset.

Office Furniture	
	500.00

S. Prather, Drawings	
500.00	

In general, anytime the owner takes anything out of the business for personal use, debit Drawings. Credit whatever asset the owner withdrew from the business.

Summary of Changes in Owner's Equity Account

Owner's equity is increased

- by the investment of an asset by the owner
- when the business earns income

Owner's equity is decreased

- by the drawing of assets by the owner
- by incurring expenses
- when the business has a net loss

Net income and net loss are dealt with later in the course.

These three additional transactions, which are continued from transactions 1 to 6 on the previous pages, will help you understand the double-entry method of recording transactions.

Transaction 7: S. Prather, the owner, withdrew $150 from the business's cash her personal use.

The debit balance of Cash, an asset, is decreased by recording a credit of $150. The balance of S. Prather, Drawings, an owner's equity account, is increased by recording a debit. As a result of S. Prather withdrawing money from the busine her total investment has been reduced.

Cash	
	150.00

S. Prather, Drawings	
150.00	

Transaction 8: Paid $10 cash to service the lawn mower.

Cash is reduced by a credit to the account. The servicing of the lawn mower do **not** affect the value of the Maintenance Equipment asset. The S. Prather, Capita credit balance is reduced, or debited.

Cash	
	10.00

S. Prather, Capital	
10.00	

Transaction 9: Received $20 cash as green fees.

Cash is increased by recording a debit to the account. S. Prather, Capital is also increased, but the increase is recorded as a credit. (Remember: debits = credit

Cash	
20.00	

S. Prather, Capital	
	20.00

2. Below is a partial chart of accounts for Prather's Pitch and Putt.

Prather's Pitch and Putt
Chart of Accounts

100	**Assets**	**200**	**Liabilities**
	101 Cash		201 Acc. Pay., Melcor Equipment C
	102 Acc. Rec., J. Sterling		202 Acc. Pay., Southern Supply Co.
	110 Office Machines		
	120 Golf Equipment	**300**	**Owner's Equity**
	121 Maintenance Equipment		301 S. Prather, Capital
			302 S. Prather, Drawings

Following are business transactions for Prather's Pitch and Putt. All purchases include GST. You do not need to record GST separately in this exercise.

1. Received $2000 cash from the owner as an additional investment.
2. Received $50 cash as green fees.
3. Received $50 cash from J. Sterling on account.
4. Received a used golf cart valued at $450 from the owner for use in the business.
5. Paid $300 cash to S. Jones as salary.
6. Paid $2500 cash for new computer system.
7. Purchased sprinklers worth $900 from Melcor Equipment Co. on account.
8. Paid $100 cash on account to Southern Supply Company.
9. The owner withdrew $300 cash for personal use.
10. Purchased $1200 worth of golf clubs on account from Melcor Equipment Co. for rental to customers.

For each of the transactions, complete the following steps.

- Write the account titles on the two T-account forms affected by the transaction.
- Write the amount in the account to be debited on the debit side.
- Write the amount in the account to be credited on the credit side.

The first one has been done for you.

1.

Cash	
2000	

S. Prather, Capital	
	2000

2.

3.

4.

5.

6.

7.

8.

9.

10.

Compare your responses with those in the Appendix, Section 2: Activity 4.

FOLLOW-UP ACTIVITIES

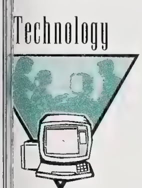
If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.

Extra Help

You have learned that the financial position of an individual or a business is expressed in the Fundamental Accounting Equation $(\text{Assets} = \text{Liabilities} + \text{Owner's Equity})$. This equation states that the total of the assets is equal to the claims against those assets. These claims consist of the liabilities (debts owed to others) and the owner's equity (value of the owner's investment). The accounting equation is expressed in the balance sheet, which is divided into the following sections:

- the heading
- the assets
- the liabilities
- the owner's equity

All accounting transactions are recorded in two parts—the debit portion and the credit portion. This double recording is called double-entry accounting and provides a check on the accuracy of the accounting, because the debits must always equal the credits.



1. Following is the financial information for Billy's Burgers as of November 30, 20xx. Use this information to create a balance sheet on the form provided.

   If you have access to an electronic spreadsheet, please use it here.

Cash	300.00
Accounts Receivable, Wells	40.00
Accounts Receivable, Wilkinson	120.00
Equipment	7 000.00
Building	80 000.00
Land	30 000.00
Bank Loan	8 000.00
Accounts Payable, Happy Foods Ltd.	1 300.00
Mortgage Payable	62 000.00
Billy Barton, Capital	46 160.00

2. From the random list of items, prepare a balance sheet for Sleepy Chalet as o June 30, 20xx.

Household Finance Co., Creditor	12 500.00
Charles Finlay, Capital	185 900.00
Building	109 500.00
Bank Loan	30 000.00
P. Luciano, Debtor	11 250.00
Cash	9 750.00
Snowmobiles	23 200.00
Land	20 000.00
J. McArthur, Debtor	8 200.00
Equipment	52 000.00
General Merchants Co., Creditor	5 500.00

Compare your responses with those in the Appendix, Section 2: Extra Help.

Enrichment

1. Use the following account balances to prepare a balance sheet for Dial-A-Wash, a coin laundry operation, as of March 31, 20xx. The laundry is owned and operated by Gerry Gibson.

   Cash, $620.20; Accounts Receivable, B. Croot, $200.00; Accounts Receivable, R. Schmidt, $75.00; Furniture, $173.50; Drying Equipment, $1080.00; Washing Equipment, $2240.00; Bank Loan, $275.00; Accounts Payable, Washer Appliances, $1000.00; Accounts Payable, Ken's Repair Shop, $73.70.

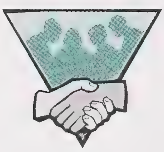
2. Carlos and Anita Fuero have recently inherited money and wish to purchase their own business. They are interested in purchasing a landscaping business that has been in operation for many years. It has been profitable in the past, earning an average of $50 000 per year over the last five years.

The following balance sheet was prepared by the owner of the business.

Custom Edge Landscapers			
BALANCE SHEET			
December 31, 20xx			
Assets		*Liabilities*	
Cash	*5 0 0 00*	*Bank Loan*	*30 0 0 0 0*
Accounts Receivable	*17 4 0 0 00*	*Accounts Payable*	*22 7 4 0 0*
Supplies	*1 1 0 0 00*	*Mortgage Payable*	*50 0 0 0 0*
Land	*40 7 0 0 00*	*Total Liabilities*	*102 7 4 0 0*
Building	*38 0 0 0 00*		
Equipment	*67 6 0 0 00*	*Owner's Equity*	
Sod Deposits	*200 0 0 0 00*	*Frank Arnold, Capital*	*262 5 6 0 0*
Total Assets	*365 3 0 0 00*	*Total Liabilities and Owner's Equity*	*365 3 0 0 0*

Mr. Arnold is asking $250 000 for the business. This seems to be a very good price. It is less than his capital figure as shown on the balance sheet.

Teamwork



Should Carlos and Anita buy the business? Prepare a list of questions that need to be answered. You may wish to work in a small group. To assist you, the first question is given.

- What condition is the equipment in and is it really worth $67 600?

Compare your responses with those in the Appendix, Section 2: Enrichment.

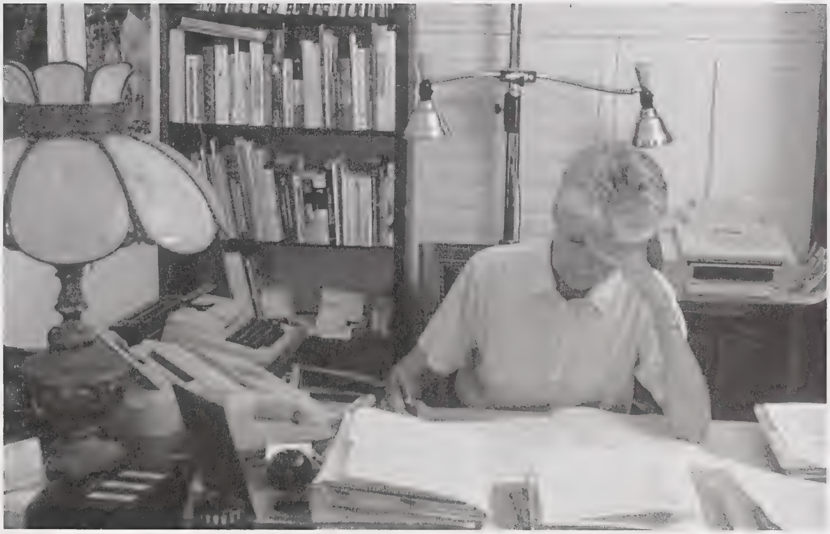
CONCLUSION

At the beginning of this section, you were introduced to Corinna and Stephan, who were being asked to prepare a will in their law class. They were trying to figure out what they were worth.

Businesses are always attempting to calculate their net worth. After all, the purpose of being in business is to make a profit. In this section you learned about the balance sheet, the use of electronic spreadsheets to assist the accountant, and the transactions using the double-entry system of accounting. The next section introduces you to the general ledger, which will further assist you in sorting and selecting accounts and keeping control of the financial management of a service business.

ASSIGNMENT

Turn to Assignment Booklet A and do the assignment for Section 2.



Ledgers

HARVEY Chay operates Harvey's Corner Store. His wife, Leah, assists him with the financial records. The majority of the business income is derived from sales. Leah noticed that Harvey had sold an old computer in the office for $800 to a customer. She also noticed that the total sales income for the month was $4700, including the $800 from the computer sale.

"Why did you include the $800 as income for the month, Harvey?" asked Leah. "We are not in the computer sales business. Don't you remember how this transaction should be recorded?"

Leah pointed out to Harvey that the balance sheet of the company had not changed. The business had only exchanged one asset for another: the computer for cash.

"It appears as though we need to make some changes in our accounting records," sighed Harvey.

In this section you will explore how the chart of accounts and ledger are established, and how the ledger is expanded to include revenue and expense accounts.

SECTION 3

ACTIVITY 1

The Chart of Accounts

Harvey and Leah's problems with accounting records are common. As their service business grows, they will need to change the manner in which they have been recording their transactions.

In Section 2 you were introduced to the Fundamental Accounting Equation, whic contained three classes of accounts:

Assets = Liabilities + Owner's Equity

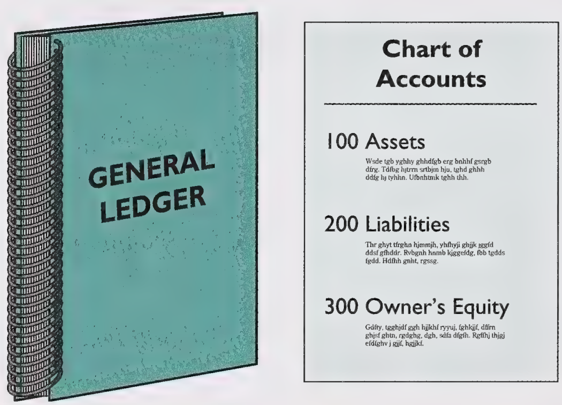
An additional account, Drawings, was also included to account for the owner's drawing of cash or other assets from the business.

general ledger: *a book containing all the accounts of the business other than those in the subsidiary ledgers*

chart of accounts: *a list of the accounts of a business and their numbers, arranged in numerical order according to the order they appear in the ledger*

account: *a specially ruled page used to record financial changes*

Accounting records need to be collected together in one area: either in a book, binder, or in the memory of a computer. This collection is called a **general ledg** Just as a book has a table of contents, the general ledger begins with a **chart of accounts**. Each **account** is similar to a chapter in a book, with a separate accou number.



How do you go about naming the accounts to be used for transactions? The accountant for a business, in consultation with the owner or manager, makes a li of the accounts that will best suit the needs of the business in making managem decisions. For example, the accounts for a construction business will be quite different from those of a hairdressing salon. From time to time, as business nee change, accounts are added or deleted as required. The accountant may also develop rules as to which type of transactions are to be included in each account order to have consistency in the keeping of the business records.

Within the chart of accounts, the accounts are grouped and listed under the balance sheet headings: Assets, Liabilities, and Owner's Equity.

Prather's Pitch and Putt
Chart of Accounts

100 Assets
- 101 Cash
- 102 Accounts Receivable, J. Sterling
- 110 Office Machines
- 120 Golf Equipment
- 121 Maintenance Equipment

200 Liabilities
- 201 Accounts Payable, Melcor Equipment Co.
- 202 Accounts Payable, Southern Supply Co.

300 Owner's Equity
- 301 S. Prather, Capital
- 302 S. Prather, Drawings

With computers, numbering each account makes the processing of transactions much faster. Each account has an account title and an account number.

You have probably noticed that some of the numbering is not consecutive. Do you recall that accounts are required to be listed in order of liquidity on the balance sheet? A numbering gap in the listing of the assets has been left to accommodate additional accounts in the future.

Also note that the first digit of the number indicates the account's location in the general ledger. For example, in Account 102, the first digit (1) indicates that this is an asset account. The second and third digits (02) indicate that this is the second account in the asset section. Depending on the size of the business, the numbering system used may vary from two or three digits to ten or more.

1. Prepare a chart of accounts for Clear-View Window Cleaners, owned by R. D. Allan. If you have access to a computer, key the chart in on a word processing program. Number the accounts consecutively within each classification (assets, liabilities, owner's equity) except where otherwise indicated.

   Leave two blank lines at the end of Accounts Receivable and two blank lines at the end of Accounts Payable to allow for additional accounts as needed.

   Assets: 101 Cash; 110 Accounts Receivable, D. Thurston; 111 Accounts Receivable, Triad Cafe; 112 Accounts Receivable, Harry's Bar; 130 Equipment; 140 Truck

   Liabilities: 201 Bank Loan; 210 Accounts Payable, A-1 Rentals; 211 Accounts Payable, Super Supplies

   Owner's Equity: 301 R. D. Allan, Capital; 302 R. D. Allan, Drawings

2. Use the following chart of accounts to answer the questions that follow.

Dave's High Tech
Chart of Accounts

100	**Assets**	
	101	Cash
	110	Accounts Receivable, N. Anderson
	111	Accounts Receivable, P. Smith
	120	Computer Equipment
	130	Office Equipment
200	**Liabilities**	
	201	Accounts Payable, Compu Supplies
	202	Accounts Payable, Dave's Publishing
	220	Bank Loan Payable
300	**Owner's Equity**	
	301	D. Taylor, Capital

What account number should be used when

a. the account Editing Equipment is added to the chart of accounts?

b. the account D. Taylor, Drawings is added to the chart of accounts?

Compare your responses with those in the Appendix, Section 3: Activity 1

ACTIVITY 2

Revenue and Expense Accounts

There are different types of transactions that affect the owner's equity:

- additional investment by the owner in the form of cash or goods
- increase in investment caused by income earned from business operations
- decrease in investment due to expenses that result from business operation
- reduction of the owner's investment in the form of withdrawal of cash or goods by the owner

The first three types of transactions are recorded in the owner's equity account, S. Prather, Capital. The fourth one is recorded in the owner's drawings account, S. Prather, Drawings.

S. Prather, Capital	

S. Prather, Drawings	

Now you are going to expand the Owner's Equity section of the chart of accounts.

Why Bother with Revenue and Expense Accounts?

Anna operates a video rental business and keeps all of her owner's equity information in one folder. If Anna takes out cash (drawings), she puts a note in the folder. If income is earned by the business, that income goes into the folder. All expenses associated with the business are also noted and placed in that folder. At the end of the month, Anna must sort through all the transactions to see if she has made any money!

Barbara also operates a small video rental business. She has a folder called Capital that has the original amount of the capital at the beginning of the month. Barbara also has another folder called Rental Revenue, and each time a sale is made, that amount is recorded in that folder. Barbara has folders for all the expenses that are associated with the running of the business: rent expense, repair expenses, and utilities expense. When Barbara pays the telephone bill, for example, she records this expense in the utilities expense folder. This is what Barbara's equity section of her chart accounts looks like.

Increase Owner's Equity

Barbara Smartie, Capital

Video Revenue

Decrease Owner's Equity

Barbara Smartie, Drawings

Miscellaneous Expense

Rent Expense

Repair Expense

Utilities Expense

1. What are the advantages of the expanded ledger?

Compare your responses with those in the Appendix, Section 3: Activity 2.

In Activity 1 you looked at Prather's Pitch and Putt and its chart of accounts. No that the chart of accounts has now been expanded to include revenue and expen It appears as follows:

Prather's Pitch and Putt
Chart of Accounts

100	**Assets**	**200**	**Liabilities**
	101 Cash		201 Acc. Pay., Melcor Equipment Co
	102 Acc. Rec., J. Sterling		202 Acc. Pay., Southern Supply Co.
	110 Office Machines		
	120 Golf Equipment	**300**	**Owner's Equity**
	121 Maintenance Equipment		301 S. Prather, Capital
			302 S. Prather, Drawings

400 Revenue
- 401 Membership Fees Earned
- 402 Green Fees Earned

500 Expenses
- 501 Office Expense
- 502 Repairs Expense
- 503 Salaries Expense
- 504 Supplies Expense
- 505 Utilities Expense

2. What is the purpose of having two revenue accounts for Prather's Pitch and Putt?

Compare your responses with those in the Appendix, Section 3: Activity 2.

Look at the accounting equation for Prather's Pitch and Putt, now that the new T-account forms have been added.

Assets	=	**Liabilities**	+	**Owner's Equity**
4800.00		*1000.00*		*3800.00*

Assets

Account	*Debit*	*Credit*
Cash	*900.00*	
Accounts Receivable, J. Sterling	*300.00*	
Office Machines	*500.00*	
Golf Equipment	*2200.00*	
Maintenance Equipment	*900.00*	

Liabilities

Account	*Debit*	*Credit*
Accounts Payable, Melcor Equipment Co.		*650.00*
Accounts Payable, Southern Supply Co.		*350.00*

Owner's Equity

Account	*Debit*	*Credit*
S. Prather, Capital		*3800.00*
S. Prather, Drawings	*0*	
Membership Fees Earned		*0*
Green Fees Earned		*0*
Office Expense	*0*	
Repairs Expense	*0*	
Salaries Expense	*0*	
Supplies Expense	*0*	
Utilities Expense	*0*	

Note: Revenue and expense accounts have been included in the owner's equity accounts because they affect the owner's capital once their data is compiled at the end of an accounting period and transferred to the capital account. You will study this in higher-level Financial Management courses.

Look at this same information presented in the form of an opening balance shee

Prather's Pitch and Putt			
BALANCE SHEET			
March 1, 20xx			
Assets		*Liabilities*	
Cash	900 00	Accounts Payable:	
Accounts Receivable:		Melcor Equipment Co.	650
J. Sterling	300 00	Southern Supply Co.	350
Office Machines	500 00	Total Liabilities	1000
Golf Equipment	2200 00		
Maintenance Equipment	900 00		
		Owner's Equity	
		S. Prather, Capital	3800
Total Assets	4800 00	Total Liabilities and Owner's Equity	4800

permanent accounts: *balance sheet accounts*

temporary accounts: *revenue, expense, income summary, and drawings accounts*

The accounts listed in the balance sheet are considered **permanent accounts**. This means there is usually a balance in the account (unless a zero balance has been reached) and that the account always remains open. The Revenue and Expense accounts are considered **temporary accounts**. This means that these accounts are only open for a period of time (e.g., one month). Then the revenue and expenses for the month are collected and categorized in these accounts, and the balances are closed and the totals are returned to the owner's Capital accou

If the expenses for the fiscal period are subtracted from the revenue, the busine owner can determine if the business is making any money, or net income. Net income is determined as follows:

Revenue – Expenses = Net Income

If the business has more expenses than revenue, a net loss occurs.

Note: Expense accounts can be listed in several different ways in the Chart of Accounts—usually according to the client's preference.

One way is to list expenses in alphabetical order; another is to list them in order dollar value with the largest value listed first. Some prefer to have expenses list in groups according to what they relate to. The important thing is to keep the account numbers in chronological order in the chart of accounts and in the ledg regardless of what method is used to list the expenses, ensuring that the numbering system used reflects the wishes of the client.

Accounting software may assign numbers to the accounts you input. For the purpose of this course, all expense accounts will be listed in alphabetical order. other Financial Management courses, this may not be the case.

3. Using the following information, complete the table. The first one is done for you.

	Total Revenue	−	Total Expenses	=	Net Income or Net Loss	+	Beginning Capital	=	New Capital
a. Fiona's Flowers	4800.00		3250.00		+ 1550.00		13 500.00		15 050.00
b. The Nail Shop			1205.00		+ 500.00		10 000.00		
c. Carol's Hair	3300.00				+ 1000.00				13 300.00
d. Andy's Repair	4600.00		2100.00				29 500.00		
e. Phyllis' Crystal			435.00		− 300.00		695.00		
f. Shirley's Ceramics	9500.00		10 800.00						14 600.00

Compare your responses with those in the Appendix, Section 3: Activity 2.

Transactions Involving Revenue and Expense Accounts

The following exercise will give you practice in recording debits and credits in T-account forms.

4. a. Write the balances for Black Arrow Delivery on the correct side of the T-account forms. The balance for Cash has been entered for you.

101	Cash	1550.00
110	Delivery Equipment	7540.00
120	Office Equipment	1520.00
210	Accounts Payable, XL Motors	3780.00
301	H. Orton, Capital	6830.00
302	H. Orton, Drawings	
401	Delivery Revenue	
501	Advertising Expense	
502	Delivery Truck Expense	
503	Miscellaneous Expense	
504	Telephone Expense	

Remember, there are no balances in the drawings, revenue, and expense accounts, since they are temporary accounts and do not begin with a balance.

101 Cash

bal 1550.00	50.00 (1)
(2) 510.00	22.00 (3)

110 Delivery Equipment

120 Office Equipment

210 Accounts Payable, XL Motors

301 H. Orton, Capital

302 H. Orton, Drawings

401 Delivery Revenue

	510.00 (2)

501 Advertising Expense

502 Delivery Truck Expense

(3) 22.00	

503 Miscellaneous Expense

504 Telephone Expense

(1) 50.00	

b. Analyse each of the transactions into debit and credit parts. Write the amount in the correct T-account forms. The first three have been done for you. Write the number of each transaction next to the amount. All purchases include GST. You do not need to record it separately in this exercise.

1. Paid cash for telephone bill, $50.
2. Received cash from the day's delivery revenue, $510.
3. Paid cash for gas and oil used in the delivery truck, $22.
4. Paid cash for a new fax machine, $300.
5. Received cash from the owner as an additional investment in the business, $1000.
6. Paid cash for washing the delivery truck, $5.
7. Received cash from the day's delivery revenue, $420.
8. Paid cash for leather gloves used by Mr. Orton as part of his work, $9.
9. Paid cash for part of amount owed to XL Motors, $500.
10. Paid cash for new electronic calculator for use in the office, $190.
11. Paid cash for the electric bill, $75.
12. Received cash from the day's delivery revenue, $590.
13. Paid cash for gas and oil used in the delivery truck, $93.
14. Paid cash to the owner for personal use, $100.
15. Paid cash for advertising in the local newspapers, $35.
16. Paid cash for month's rent, $400.
17. Received cash from the day's delivery revenue, $395.

c. Draw a horizontal line under the last entry and calculate the new balance for each T-account.

Compare your responses with those in the Appendix, Section 3: Activity 2.

In this activity you expanded the ledger to include revenue and expense accounts and analysed transactions relative to revenue and expense accounts.

ACTIVITY 3

Opening the General Ledger

In the last two activities you have learned about the chart of accounts and reven
and expense accounts. You have also learned that the financial position of a business or an individual is shown by the Fundamental Accounting Equation.

In this activity you will open the general ledger of the business in a step-by-step process.

Step 1: Create a Chart of Accounts

Prepare a chart of accounts showing the classifications you would use to record the transactions of your business.

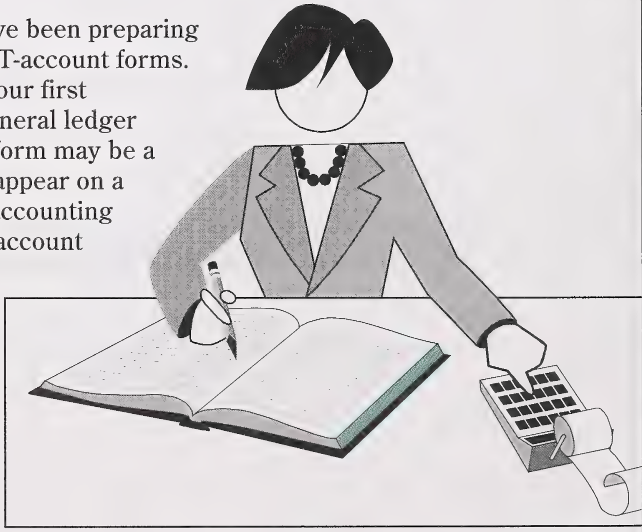
Step 2: Prepare an Opening Balance Sheet

List all the assets and liabilities of the business before you actually commence business, and calculate the owner's equity in the business.

Step 3: Open the General Ledger

Open your general ledger. Remember, this is the main record of the business.
is permanent.

Up to this point, you have been preparing your calculations using T-account forms. You will now be using your first accounting form, the general ledger form. This accounting form may be a printed form, or it may appear on a computer screen in an accounting program. Notice the T-account forms you used are really the debit and credit columns of a ledger form without the horizontal lines.



Each account listed in the chart of accounts is represented by a sheet in a loose-leaf binder, a card in a tray or bin, or a file in a computer program.

A standard, pre-printed general ledger card looks something like the following.

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

To open an account, write the account name and the account number at the top of the ledger card.

ACCOUNT *Office Machines* ACCOUNT NO. *110*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

There is a separate ledger card for each account in the chart of accounts.

1. Rita Maxwell has recently purchased a small hotel, the Waterfall Hotel, near the entrance to the Rocky Mountain parks area.

a. Set up a chart of accounts for the Waterfall Hotel. Provide an appropriate account number for each account.

The ledger accounts and their balances are listed below. Where no amou is shown, the account has no balance.

Cash	18 000.00
Accounts Receivable, D. Woloshyn	400.00
Accounts Receivable, J. Unser	200.00
Furniture and Fixtures	13 000.00
Office Equipment	4 000.00
Vending Machines	7 000.00
Coffee Shop Equipment	9 000.00
Accounts Payable, Motel Supply Co.	800.00
Accounts Payable, Alta. Wholesale Ltd.	1 200.00
Rita Maxwell, Capital	49 600.00
Rita Maxwell, Drawings	
Room Sales Revenue	
Coffee Shop Revenue	
Vending Machine Revenue	
Cleaning Expense	
Miscellaneous Expense	
Rent Expense	
Salaries Expense	
Utilities Expense	

b. Prepare an opening balance sheet as of January 1, 20xx.

c. If you were working in a set of books, you would now open a general ledger and a general journal and begin to journalize transactions; however, you won't learn how to do this until Section 4. For now, open a T-account form for each of the accounts in the chart of accounts, and place the balances in the appropriate accounts. Note that the full amount title must be used when labelling accounts.

d. Analyse each of the transactions that follow. Enter the amounts in the correct T-account forms in c. as a debit or credit. Write the number of ea transaction next to the amount. This will help you to track both the debi side and the credit side of each transaction. Note that GST is included in purchases. Do not record it separately in this exercise.

1. Paid one month's rent on the motel, \$1500.

2. Received cash for room sales, \$1000.

3. D. Woloshyn stayed in Room 401. Room rate was $30. He stayed for four nights and will pay at the end of the month.
4. Received cash from coffee shop sales, $2500.
5. Received cash from the vending machine sales, $1200.
6. Paid $200 to repair one of the vending machines.
7. Bought a new machine on credit from Motel Supply Co. for the office. The machine cost $3400 and the bill will be paid at the end of the month.
8. The owner, Rita Maxwell, took $2000 out of the cash drawer for her personal use.
9. Sold an old office machine for cash, $500.
10. Paid Alta. Wholesale Ltd. $1200 on account.
11. D. Woloshyn sent a cheque for $150 to apply on his account.
12. Paid the utility bill, $700.
13. Paid the employees' wages, $1800.
14. Room sales amounted to $3600 for the week. Of the $3600, $2500 was cash and $1100 was on account to J. Unser. Unser will pay at the end of the month.
15. Bought a new oven for the coffee shop. It was $2000. Purchased from Motel Supply Co. The bill will be paid at the end of the month.
16. Sold old microwave oven to a member of the staff for $200 cash.
17. Rita Maxwell, the owner, invested $8000 cash and also coffee shop equipment worth $4000. Total investment is $12 000.
18. Received cash for room sales, $2500.
19. Received cash from vending machine sales, $1100.
20. Paid Motel Supply Co. $2500 on account.
21. Paid Jay's Janitorial Service $1500 to thoroughly clean up the coffee shop.

e. After entering all the debit and credit transactions into the T-account for[m] balance each, and place the new balance at the bottom of the T-account forms. Now add up all the T-account forms with a debit balance in one column, and all the T-account forms with a credit balance in another column. The two balances—debit and credit—should agree.

Compare your responses with those in the Appendix, Section 3: Activity 3

In this activity you developed your accounting skills by opening the ledger of a small business.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of [the] concepts, it is recommended that you do the Enrichment.

Extra Help

A book has a table of contents that outlines the chapters that are included in the book. Similarly, a general ledger begins with a chart of accounts that contains a[ll] the particular accounts for each business. The general ledger contains a separa[te] record for each account, and each is numbered according to the following syste[m]:

100	Assets
200	Liabilities
300	Owner's Equity
400	Revenue
500	Expenses

Therefore, the first account in the asset section would be numbered 101, and the first account in the liabilities section would be numbered 201, and so on.

Revenue and expense accounts are temporary accounts that remain open for a specific period of time (a month, three months, etc.) and then are closed. The difference between the revenue and the expense accounts results in the net income or the net loss for the company for that period of time.

1. For each of the accounts listed below, indicate whether it would normally have a debit or a credit balance. Put a check mark (✔) in the appropriate column.

DEBIT OR CREDIT?

Account	Debit Balance	Credit Balance
Supplies		
Advertising Expense		
A. Anderson, Drawings		
G. Wright, creditor		
Rent Expense		
Fees Earned		
Bank Loan		
A. Bryan, Capital		
Mortgage Payable		
Automobile		

Compare your responses with those in the Appendix, Section 3: Extra Help.

2. Ricardo Real Estate is a business owned by Cathy Ricardo. The assets and liabilities of the business are as follows:

Assets		Liabilities	
Cash	1 056.00	Bank Loan	19 000.00
Acc. Rec., D. Murray	1 351.00	Acc. Pay., Tuck Corp.	1 520.00
Acc. Rec., A. Niemi	2 516.00	Cathy Ricardo, Capital	43 441.00
Office Supplies	1 115.00		
Furniture and Equipment	11 916.00		
Land	18 042.00		
Automobile	27 965.00		

The financial position of Ricardo Real Estate is set up in the following T-account forms.

Cash	
1056.00	

Accounts Receivable, D. Murray	
1351.00	

Accounts Receivable, A. Niemi	
2516.00	

Accounts Receivable, V. Morris	

Office Supplies	
1115.00	

Furniture and Equipm	
11 916.00	

Land	
18 042.00	

Automobile	
27 965.00	

Bank Loan	
	19 000.0

Accounts Payable, Tuck Corp.	
	1520.00

Accounts Payable, Pioneer Furniture	

Cathy Ricardo, Capita	
	43 441.0

Cathy Ricardo, Drawings	

For the following transactions listed, record the accounting entries in the T-account forms. All purchases include GST. Do not record it separately in th exercise.

1. Received $516 cash from A. Niemi.
2. Sold a home for V. Morris. For this service, Morris owes $4 150 to Ricardo Real Estate.
3. Paid $95 cash for office supplies.
4. Received $5000 cash for the sale of land. (The property is included in the Land figure of $18 042.)
5. Paid $15 000 cash to the bank to reduce the amount of the bank loan.
6. Paid $520 cash to Tuck Corp.
7. Paid $40 cash for a new floormats for the automobile.

8. Received $800 cash from D. Murray.

9. The owner withdrew $500 cash for her personal use.

10. Received $2000 cash from V. Morris.

11. Paid the balance of the debt to Tuck Corp. in cash, $1000.

12. Purchased a new office desk at a cost of $600 from Pioneer Furniture, but did not pay cash for it.

13. Sold a home for A. McIntosh. McIntosh paid the realty $5100 cash for the service.

Compare your responses with those in the Appendix, Section 3: Extra Help.

Enrichment

1. You are the bank loans officer in the town of Jaston. An entrepreneur, Sally Yu, comes to you in the hope of borrowing $75 000 for a business venture. When you inquire about her personal financial status, she presents you with the balance sheet shown below.

Sally Yu
BALANCE SHEET
September 30, 20xx

Assets		*Liabilities*	
Cash	2 000 00	*Accounts Payable*	5 300 00
Accounts Receivable	1 500 00	*Mortgage Payable*	30 000 00
Supplies	1 300 00	*Total Liabilities*	35 300 00
Land	75 000 00		
Furniture	9 000 00	*Owner's Equity*	
Vehicles	17 000 00	*Sally Yu, Capital*	70 500 00
Total Assets	105 800 00	*Total Liabilities and Owner's Equity*	105 800 00

When examining this statement, you become concerned about the building lot for $75 000. You have lived in Jaston for several years, and you know that there are not many properties in town that are worth that much money.

Sally informs you that she bought the property one month ago for $30 000 and that she borrowed the entire sum from her father. This is shown properly on the statement as Mortgage Payable.

Your conversation with Sally indicates that she truly believes that the propert will increase in value in the near future and that she has listed it at the amoun she expects to sell it for. When you find out the location of the property, you realize that it is a piece of land that took over two years to sell.

a. What is your opinion about listing the property at $75 000? What GAAP is affected?

b. What would you say to Sally about this particular item?

c. Would you lend Sally the money based only on the financial data given to you?

Compare your responses with those in the Appendix, Section 3: Enrichment

2. The account balances in the ledger of Paula Garside, a sculptor, are as follows

Account	Debit	Credit
Cash	1745.00	
Accounts Receivable, P. Adler	50.00	
Accounts Receivable, A. Jackson	70.00	
Supplies	610.00	
Equipment	5000.00	
Automobiles	7900.00	
Accounts Payable, Century Finance		5500.00
Accounts Payable, B & B Stone		50.00
P. Garside, Capital		5625.00
P. Garside, Drawings	50.00	
Revenue		11 920.00
Car Expense	500.00	
Light, Heat, Water Expense	280.00	
Rent Expense	300.00	
Wage Expense	6500.00	

Paula's auditor discovered the following errors when checking the records:

- $150 of cash revenue was credited incorrectly to the Capital account.
- $500 of the owner's drawings was debited incorrectly to the Wages account.
- $400 of automobile expense was debited incorrectly to the Automobile account.
- $110 of equipment was incorrectly debited to Car Expense.

a. Write out the changes in the accounts necessary to correct the errors.

b. The net income figure prior to the auditor's discoveries was determined to be $4340. What is the corrected income figure?

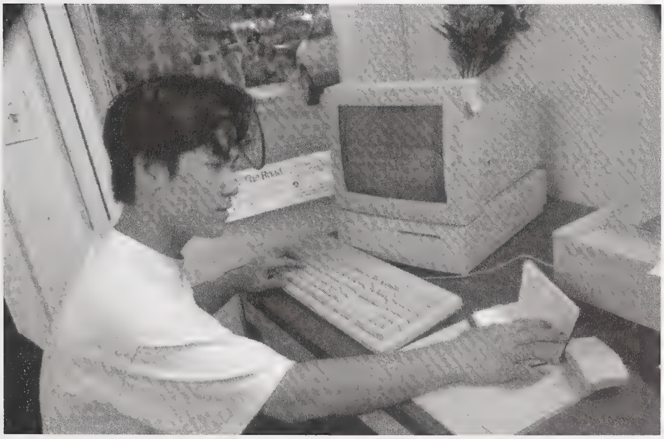
Compare your responses with those in the Appendix, Section 3: Enrichment.

CONCLUSION

In this section you were introduced to the chart of accounts and the general ledger. This ledger was then expanded to include revenue and expense accounts. You should now be in a better position to analyse business transactions for a service business.

ASSIGNMENT

Turn to Assignment Booklet A and do the assignment for Section 3.



Journals

KIRA opened her diary and began to write. Each evening before going to bed, she would outline the day's events in her diary. She had been completing a diary ever since she was 13, and now, at the age of 20, it was a hard habit to break. Each entry was dated and Kira found herself recording the weather, the day's events, and anything special that came to mind. It was surprising how often she would refer to her diary when she needed to recall events. What day had her car broken down? When had she attended that party?

A diary is a daily record of one's life events. An accountant uses a form of a diary called a journal. The journal is sometimes called *the book of original entry* because it is the first book where transactions are recorded.

In this section you will examine the journal and source documents, and further develop your skills in analysing transactions, recording them in a journal, and then posting to the ledger.

SECTION 4

ACTIVITY 1

Introduction to Journals

The most basic form of journal is called a general journal. There are other types of journals which will be discussed in later modules.

The general journal records all parts of a transaction in one place. The date, debi credit, and an explanation of each transaction are recorded together. In the previous section, you had a T-account form for each part of the transaction—the debit portion and the credit portion. As you are aware, double-entry accounting requires a debit entry to equal a credit entry.

The process of recording transactions in a journal is called journalizing. Part of a general journal appears below.

GENERAL JOURNAL						Page
	Date		Account Title	POST REF.	Debit	Credit
1						
2						
3						
4						
5						
6						
7						
8						

Transactions are recorded in chronological order in the general journal.

Every journal entry has four parts:

1. the date

   The year is placed above the month in the first of the two columns for the date; and the day is placed in the second column. Write the year and month only once per page, unless they change.

2. the account(s) that is debited and the amount

   The debit entry is always recorded first, followed by the credit entry. If more than one account is debited, list them in the order in which they appear in the general ledger.

3 the account(s) that is credited and the amount

The credit entry is indented slightly from the left margin to distinguish it from the debit portion. If more than one account is credited, list them in the order in which they appear in the general ledger.

4 an explanation giving details of the transaction

Note: A blank line may be left between transactions.

Note: The debit part of the transaction is always recorded first, followed by the credit part.

The following example will show you how to record a transaction in the general journal.

Note: All transactions in this course that involve purchasing items include GST. For the purpose of the course, do not record it separately.

Example

Transaction: Purchased office equipment for $250 cash.

The T-account forms for this transaction would appear as follows:

Cash	
	250.00

Office Equipment	
250.00	

This is how the transaction would appear in the general journal. Note that each journal page is numbered in the upper right-hand corner.

GENERAL JOURNAL — Page 13

	Date		Particulars		POST REF.	Debit	Credit	
1	*20xx* *June*	*1*	*Office Equipment*	2 Debit		*250 00*		1
2	1		*Cash*	3 Credit			*250 00*	2
3	Date		*Purchased desk for cash*	4 Explanation				3
4								4
5								5
6								6
7								7
8								8

The post reference column will be explained later in this section.

What Are Source Documents?

source document: *any piece of paper that provides details about a financial change in business*

Dave purchases $75 worth of groceries. He pays cash for the groceries and Sunshine Food Mart provides him with a receipt for his purchase. This receipt is an example of a **source document**.

A source document is proof that a transaction has occurred. Without the receipt from Sunshine Food Mart, Dave would have a difficult time returning or exchanging any of the purchased items. In addition, if Dave is keeping his personal financial records in order, he would add the receipt to his monthly food bills to calculate how much he has spent on food in the month.

When business transactions occur, the details of the transactions are shown on the source documents. Some examples of source documents are:

- cash sale slips and cash register receipts
- cheques, issued by the business or received by the business
- memorandums from financial institutions advising the business owner that monies have been removed from the bank account **(debit memo)** or deposited into the bank account **(credit memo)**

debit memo: *a memorandum indicating that the company bank account has been debited (decreased)*

credit memo: *a memorandum indicating that the company's bank account has been credited (increased)*

FIRST SHORE BANK

Cash Counter

CARDHOLDER	DATE	TIME
54678980A	JAN04, 20xx	17:14

WITHDRAW $**50.00 FROM CHEQUING

ACCOUNT BALANCE
$****984.22

TRANSACTION RECORD
EA45-1275

THANK YOU

WELLNESS FITNESS CENTRE
"The Fit Place to be"

21 Heron Place
Barrhead, Alberta S4T 3A1
Telephone (403) 555-6567

INVOICE

Number: *0002 A*
Date: *09 11, 20xx*
Terms: *N/5*

Quantity	Description	Amount	
1	*Quarterly Membership to Lynn Ayles*	*90*	*0*
	Total	*90*	*0*
	Received in Cash	*30*	*0*
	Amount Owing	*60*	*0*

Sales Invoice

Look at a sales invoice used by Prather's Pitch and Putt to record sales on account (accounts receivable).

INV.# *140*

DATE: *June 28, 20xx*

SALES INVOICE

PRATHER'S PITCH AND PUTT
4949 WESTVIEW ROAD
SPRUCE GROVE, AB T6R 2L1
(403) 555-4444

ITEM

GREEN FEES:	☑	*$16.00 x 2 =*	*32.00*
MISC:	☐	*Balls (on sale)*	
SUB TOTAL			*32.00*
GST			*2.24*
TOTAL AMT			*$34.24*

TERMS: 30 Days net. Interest at 12% charged on overdue accounts

Invoice

Date

Seller

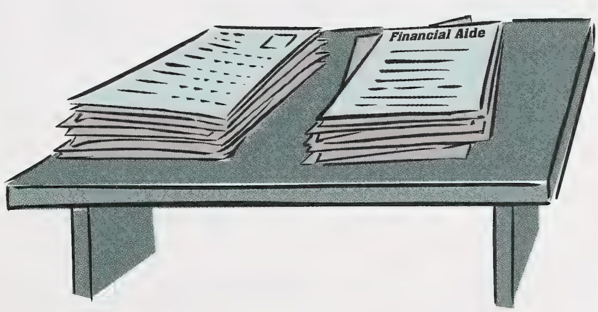
Amount of Transaction

Terms of Sale

This transaction would be recorded in the general journal as follows.

GENERAL JOURNAL Page 2

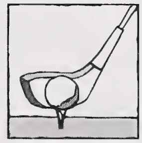
	Date		Account Title	POST REF.	Debit	Credit	
1	*20xx June*	*28*	*Accounts Receivable, R. Lee*		*34.24*		1
2			*Green Fees Earned*			*34.24*	2
3			*Received for green fees*				3
4							4
5							5



Cash Sales Slip

Look at this cash sale slip from Prather's Pitch and Putt.

PRATHER'S PITCH AND PUTT
4949 WESTVIEW BLVD.
SPRUCE TOWN, AB T6R 2L1
(780) 555-4444



Seller

CASH SALE

DATE: *June 27, 20xx*

Date

GREEN FEES ☐ $10 ☑ $16 *$16.00*

MISC: ☐ Balls
☐ Clothing
☐ Other

GST of 7% *$1.12*
TOTAL AMT *$17.12*

Amount of Transaction

PAID BY
☑ CASH ☐ CHEQUE ☐ MASTERCARD/VISA

Look at how this transaction would be recorded from the source document in the general journal.

GENERAL JOURNAL Page 2

	Date		Account Title	POST REF.	Debit	Credit	
1	*20xx June*	*27*	*Cash*		*17 12*		1
2			*Green Fees Earned*			*17 12*	2
3			*Received for green fees*				3
4							4
5							5

1. The two transactions that you just looked at are both recorded as credits to Green Fees Earned. One is a cash credit, and the other is an accounts receivable. Which type of transaction do you think Prather's Pitch and Putt prefers?

2. Look at the following source document.

Sofia's Draperies
4902 West Bank
Red City, AB
T0B 3M0

Date: *July 6, 20xx*
Sold To: *Cassie McArthur*
1702-49 Street
Red City, AB
T0R 2L7
555-5656

Item:
Cleaning and Installation of household draperies — *$410.00 (incl. GST)*

Paid By:
✔ Cash *$100* ____ Cheque ✔ On Account *$310.00*

In the general journal for Sofia's Draperies, complete the journal entry for this transaction. Sofia's revenue account is called Installation Fees Earned.

GENERAL JOURNAL — Page

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8

mpound try: *a journal ry involving re than two counts*

An entry that has more than one debit or credit part is called a **compound entry**. It is important that the debit and credit portions are equal in a compound entry.

Compare your responses with those in the Appendix, Section 4: Activity 1.

Why Bother with Source Documents?

Sara Douglas is the owner of The Sugar Shack. Sara believes that it is not necessary to keep source documents on file after transactions have occurred for several reasons: she does her own bookkeeping and personally handles all transactions; she has an excellent memory and believes it is important to record transactions in the general journal as soon as they occur, rather than waiting to get or send invoices; she thinks that source documents are just more paperwork; and she does all her accounting on the computer, so transactions are recorded electronically.

3. Explain how each of the following principles, regulations, or ideas applies to Sara's business. Are her views about keeping source documents correct, or should she change her way of doing business?

   a. the Generally Accepting Accounting Principle of Objectivity
   b. the Generally Accepting Accounting Principle of Cost
   c. federal regulations concerning keeping records
   d. elimination of the need for source documents by using a computer

Your answers should be in the form of paragraphs. If you have access to a word processing package, print out your answers. Otherwise, do the activity in your notebook. The Generally Accepted Accounting Principles are printed in the Appendix at the back of this course for your reference.

Compare your responses with those in the Appendix, Section 4: Activity 1.

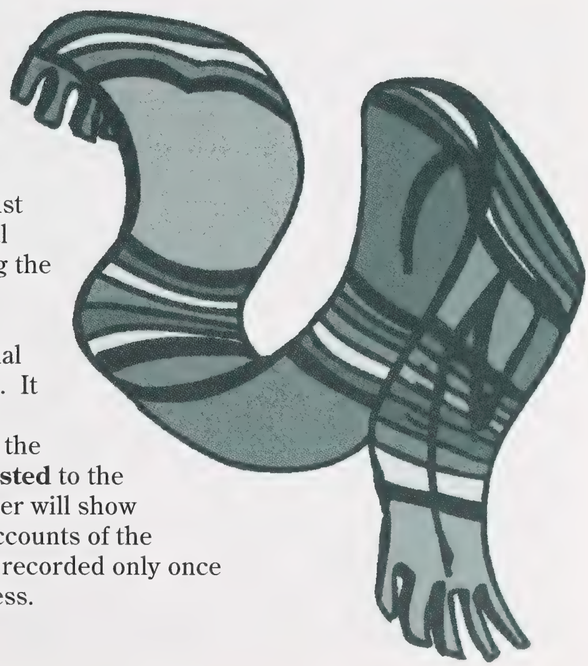
Correcting Journal Entries

Sometimes you may find an error where the wrong account has been debited or credited or the wrong amount has been entered, and it's too far back in the record to cross out the error and write the correction above. In fact, if you are using an accounting program on your computer, most programs will not allow you to go back to correct the error. When this happens, you must make a reversal entry to cancel the error and then make a new entry with the correct information.

For example, on March 13, 20xx, you discover that the D. Robbins, Accounts Receivable was credited $500 on February 5, 20xx, when it should have been S. Rawlings, Accounts Receivable that should have been credited $500. The correcting entries would look as follows.

	Date		Account Title	POST REF.	Debit	Credit	
1	20xx Feb.	1	Cash		10 550 00		1
11		5	Cash		500 00		11
12			D. Robbins, Accounts Receivable			500 00	12
13			Received on account				13
76	March	13	D. Robbins, Accounts Receivable		500 00		76
77			Cash			500 00	77
78			To correct February 5, 20xx, entry				78
79		13	Cash		500 00		79
80			S. Rawlings, Accounts Receivable			500 00	80
81			Received on account, February 5, 20xx				81

What Is an Opening Entry?



Alicia is knitting a scarf. She begins by "casting on" stitches. This row of stitches determines the length of the scarf and begins the pattern that the scarf will follow. Similarly, in accounting, one must "cast on" by opening the general journal. This is called recording the **opening entry**.

pening entry: *first entry ıde in a ırnal of a new siness*

The opening entry is the financial record of the start of a business. It records the beginning assets, liabilities, and owner's equity in the business. Once this entry is **posted** to the general ledger, the general ledger will show the beginning balances in the accounts of the business. The opening entry is recorded only once during the lifetime of the business.

sted: *orded in the lger*

Following is the opening entry for Prather's Pitch and Putt on page 1 of the gener journal.

	GENERAL JOURNAL					Page 1
	Date		Account Title	POST REF.	Debit	Credit
1	20xx May	1	*Cash*		*900 00*	
2			*Accounts Receivable, J. Sterling*		*300 00*	
3			*Office Machines*		*500 00*	
4			*Golf Equipment*		*2 200 00*	
5			*Maintenance Equipment*		*900 00*	
6			*Accounts Payable, Melcor Equipment Co.*			*650 00*
7			*Accounts Payable, Southern Supply Co.*			*350 00*
8			*S. Prather, Capital*			*3 800 00*
9			*To open the books of Prather's Pitch and Putt*			
10						
11						

Remember, each journal entry has four parts: the date, a debit, a credit, and an explanation of the entry. You should leave one blank line after each complete transaction to make it easier to read the journal.

4. What is the total of the debits for Prather's Pitch and Putt? What is the total o the credits? Why is it important that the debits equal the credits?

5. Use the following figures to prepare an opening entry for Great Slave Charters, a charter houseboat business owned by R. Richards. Use the date of June 1, 20xx.

   Cash, $12 250; Term Deposit, $10 000; Houseboats, $220 000; Office Equipment, $12 000; Land and Building, $140 000; Mortgage to Bank, $110 00 R. Richards, Capital, $284 250.

	GENERAL JOURNAL					Page
	Date		Account Title	POST REF.	Debit	Credit
1						
2						
3						
4						
5						
6						
7						
8						

Compare your responses with those in the Appendix, Section 4: Activity 1.

The following chart is a summary of the different types of source documents that may be used to keep financial records of a business. The chart gives an example of each type of source document and lists the accounts debited and credited for each transaction.

SUMMARY OF SOURCE DOCUMENTS

Source Document	Example of Transaction	Account Debited	Account Credited
Cash Sales Slip	Goods or services are sold for cash.	Bank (or Cash)	Revenue (Sales)
Charge Sales Slip or Sales Invoice	Goods or services are sold on credit (accounts receivable).	Accounts Receivable	Revenue (Sales)
Purchase Invoice	The company purchases goods or services on account.	The Asset account (Supplies, Office Equipment)	Accounts Payable

SUMMARY OF SOURCE DOCUMENTS

Source Document	Example of Transaction	Account Debited	Account Credited
Cheque Written	Varied—cash purchase of an asset; paying an account payable; owner takes out cash for personal use.	Varied—Accounts Payable; Asset account (Supplies, Equipment); the Drawings account	Bank
Cheque Received	Received from customers on account	Bank	Accounts Receivable
Bank Debit Memo	A decrease in the bank account (i.e., service charges, cheque printing)	Bank Charges or Miscellaneous Expenses	Bank
Bank Credit Memo	An increase in the bank account (i.e., interest earned)	Bank	Bank Interest Earned

Activity 1 introduced you to the journal, the opening entry, and source documents. You will now have an opportunity to analyse journal transactions and post them to the ledger in Activity 2.

ACTIVITY 2

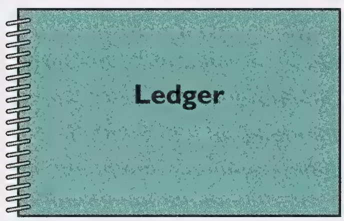
Analysing, Journalizing and Posting Entries

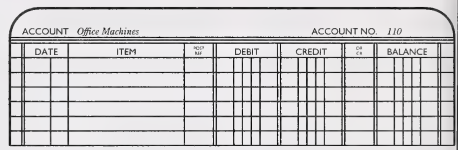
Up to this point in Financial Management, you have completed the following steps in the accounting cycle:

- preparing a beginning balance sheet

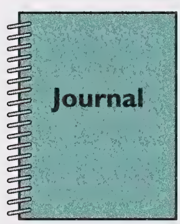
Prather's Pitch and Putt			
BALANCE SHEET			
May 1, 20xx			
Assets		Liabilities	
Cash	900 00	Accounts Payable	
Accounts Receivable:		Melcor Equipment Co.	650 00
J. Sterling	300 00	Southern Supply Co.	350 00
Office Machines	500 00	Total Liabilities	1000 00
Golf Equipment	2200 00		
Maintenance Equipment	900 00	Owner's Equity	
		S. Prather, Capital	3800 00
Total Assets	4800 00	Total Liabilities and Owner's Equity	4800 00

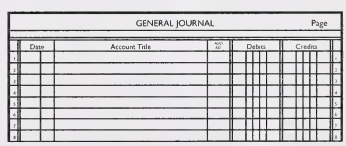
- opening a general ledger (which includes a chart of accounts)





- journalizing the opening entry in the general journal





Activity 2 begins with posting the opening entry into the general ledger.

In Activity 1 Sam Prather, the owner of Prather's Pitch and Putt, began by preparing an opening balance sheet, which was then recorded in the general journal as the opening entry. This entry is then posted to the general ledger. The business may have other accounts, but because they have zero balances, they are not listed.

As you know, the general ledger is the permanent record of the business. It shows the financial position of the business at a given point in time.

Below is the opening balance sheet for Prather's Pitch and Putt.

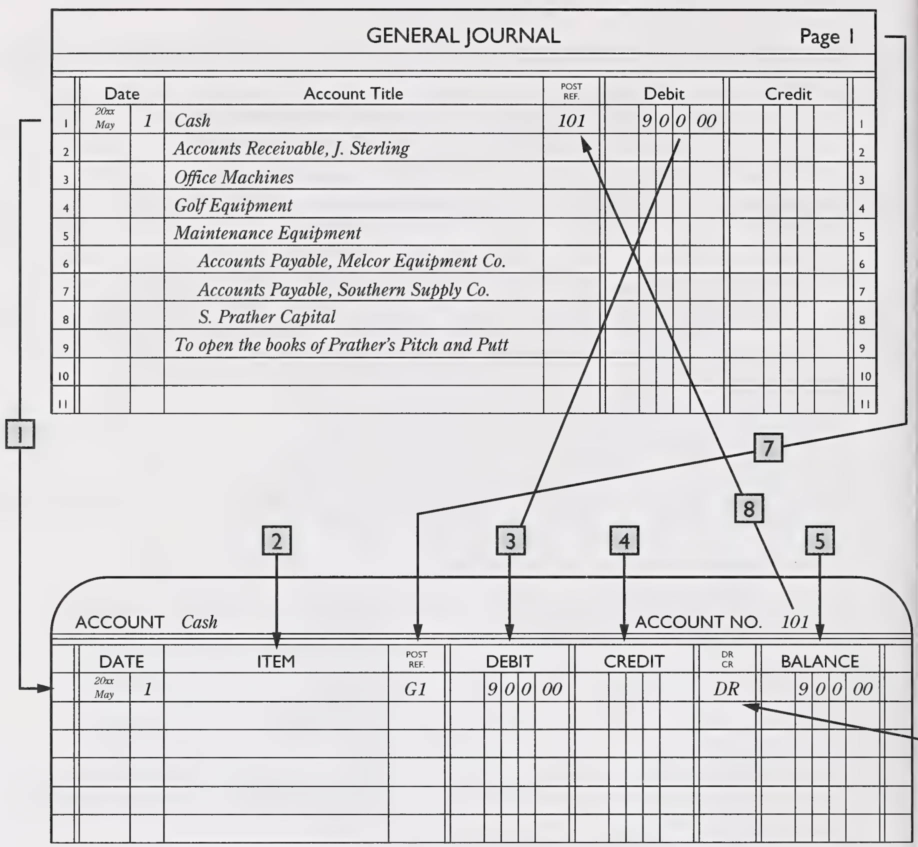
Prather's Pitch and Putt			
BALANCE SHEET			
May 1, 20xx			
Assets		*Liabilities*	
Cash	900 00	*Accounts Payable:*	
Accounts Receivable:		*Melcor Equipment Co.*	650 00
J. Sterling	300 00	*Southern Supply Co.*	350 00
Office Machines	500 00	*Total Liabilities*	1000 00
Golf Equipment	2200 00		
Maintenance Equipment	900 00	*Owner's Equity*	
		S. Prather, Capital	3800 00
Total Assets	4800 00	*Total Liabilities and Owner's Equity*	4800 00

The information from the opening balance sheet has been entered on page 1 of a general journal for Prather's Pitch and Putt.

GENERAL JOURNAL — Page 1

	Date		Account Title	POST REF.	Debit	Credit	
1	*20xx* *May*	*1*	*Cash*		900 00		1
2			*Accounts Receivable, J. Sterling*		300 00		2
3			*Office Machines*		500 00		3
4			*Golf Equipment*		2200 00		4
5			*Maintenance Equipment*		900 00		5
6			*Accounts Payable, Melcor Equipment Co.*			650 00	6
7			*Accounts Payable, Southern Supply Co.*			350 00	7
8			*S. Prather, Capital*			3800 00	8
9			*To open the books of Prather's Pitch and Putt*				9
10							10
11							11

Posting the Opening Entry from the General Journal to the General Ledg



Turn to the Cash account in the general ledger and follow these steps:

Step 1: Date: Copy the date that is shown in the journal. In this case, it is May 1, 20xx.

Step 2: Item: You may leave this column blank.

Step 3: Debit: Copy the amount of $900 from the debit column of the general journal to the debit column of the ledger. This step is optional for the opening entry, but is required for all future postings.

Step 4: Credit: Since there is nothing recorded in the credit column of the general journal, leave the credit column of the ledger blank.

Step 5: Balance: Calculate and enter the balance. In this case, the balance wi be $900.

Step 6: DR/CR: This column is called the indicator column because it indicates whether the balance figure is a debit or a credit. In this case, the balance is a debit. Be aware that accounts can have balances that are opposite to their normal balance type. For example, if one of the account receivables is overpaid, that account will have a credit balance. If an account has a zero balance, the DR/CR column is left blank for that balance.

Step 7: Post Ref. in ledger: This is the post reference column. You need to record where you obtained the transaction information. In this case, you obtained the information from page 1 of the general journal; so you write "G1 in the column," the "G" indicating the type of journal (the general journal).

Step 8: Post. Ref. in journal: Return to the general journal and write the account number (101) in the post reference column. This indicates that you have completed posting the data on the line and it shows which account it was posted to in case you need to cross-reference the data.

The balance of the opening entry is posted to the ledger in the same fashion. The completed general ledger will appear as follows:

ACCOUNT *Cash* ACCOUNT NO. *101*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	*1*		*G1*	*9 0 0 00*		*DR*	*9 0 0 00*

ACCOUNT *Accounts Receivable, J. Sterling* ACCOUNT NO. *102*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	*1*		*G1*	*3 0 0 00*		*DR*	*3 0 0 00*

ACCOUNT *Office Machines* ACCOUNT NO. *110*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	*1*		*G1*	*5 0 0 00*		*DR*	*5 0 0 00*

ACCOUNT *Golf Equipment* ACCOUNT NO. *120*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR/CR	BALANCE
20xx May	*1*		*G1*	*2,200.00*		*DR*	*2,200.00*

ACCOUNT *Maintenance Equipment* ACCOUNT NO. *121*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR/CR	BALANCE
20xx May	*1*		*G1*	*900.00*		*DR*	*900.00*

ACCOUNT *Accounts Payable, Melcor Equipment Co.* ACCOUNT NO. *201*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR/CR	BALANCE
20xx May	*1*		*G1*		*650.00*	*CR*	*650.00*

ACCOUNT *Accounts Payable, Southern Supply Co.* ACCOUNT NO. *202*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR/CR	BALANCE
20xx May	*1*		*G1*		*350.00*	*CR*	*350.00*

ACCOUNT *S. Prather, Capital* ACCOUNT NO. *301*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR/CR	BALANCE
20xx May	*1*		*G1*		*3,800.00*	*CR*	*3,800.00*

The completed general journal will appear as follows:

GENERAL JOURNAL							Page 1
	Date		Account Title	POST REF.	Debit	Credit	
1	20xx May	1	*Cash*	*101*	*900 00*		1
2			*Accounts Receivable, J. Sterling*	*102*	*300 00*		2
3			*Office Machines*	*110*	*500 00*		3
4			*Golf Equipment*	*120*	*2 200 00*		4
5			*Maintenance Equipment*	*121*	*900 00*		5
6			*Accounts Payable, Melcor Equipment Co.*	*201*		*650 00*	6
7			*Accounts Payable, Southern Supply Co.*	*202*		*350 00*	7
8			*S. Prather, Capital*	*301*		*3 800 00*	8
9			*To open the books of Prather's Pitch and Putt*				9
10							10
11							11

Note: Although all data posted to a ledger should come from a journal entry, in some cases you will be asked to record balances listed from a chart of accounts or from some other source. Balances posted from these sources should have a check mark placed in the Post Ref. column of the ledger. The check mark indicates that the amount was taken from a source other than a journal. The word *Balance* can also be written in the Item column to show that other data exists, but only the balance was recorded.

1. C. Bale started a clothing business on October 1 of the current year. It is called Fine Fashions and started with the following assets, liabilities, and owner's equity items:

   Cash, $600; Accounts Receivable, J. Jones, $200; Supplies, $200; Store Equipment, $3000; Office Equipment, $2000; Accounts Payable, F. Fisher, $300; Accounts Payable, L. Ritchie Company, $500; C. Bale, Capital, $5200.

   a. In your notebook, prepare a partial chart of accounts for Fine Fashions. Do not forget to include the drawings account even though it is not listed in the opening balances.

b. Prepare an opening balance sheet for Fine Fashions. Make sure that the debits equal the credits.

c. Open the general ledger by recording the accounts and their numbers in the ledger. If an account has no opening balance, leave it blank until a transaction involving it occurs.

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

d. Record the opening entry for Fine Fashions on page 1 of the general journal.

GENERAL JOURNAL — Page

	Date	Account Title	POST REF.	Debit	Credit
1					
2					
3					
4					
5					
6					
7					
8					
9					

e. Post the opening entry from the general journal to the general ledger.

Compare your responses with those in the Appendix, Section 4: Activity 2.

Analysing Transactions

At this point in Financial Management, you have prepared a beginning balance sheet, opened a general ledger, placed the opening entry in the general journal, posted the opening entry to the ledger. Now the financial records of the busines are ready to accept transactions as a result of doing business. A business transaction is a financial event that changes the value of items on the balance sh and, therefore, changes the financial position of the business. Look at an examp

Example

Charles Wilson owns and operates Chuck the Courier. He bought a computer fo the business and paid $4000 cash. Chuck the Courier's financial position on Ma was as follows:

Purchased computer for cash—$4000.

	Assets			=	Liabilities		+ Owner's Equity
	Cash	Office Machines	Truck	Bank Loan	Accts. Pay., Machine Sales	Accts. Pay., Gas Co.	C. Wilson, Capital
Balances	*5 000.00*	*2 000.00*	*10 000.00*	*7 000.00*	*0.00*	*1 000.00*	*9 000.00*
Transaction	*–4 000.00*	*+4 000.00*					
Totals	*1 000.00*	*6 000.00*	*10 000.00*	*7 000.00*	*0.00*	*1 000.00*	*9 000.00*

$17 000.00 = $8 000.00 + $9 000.00

Cash, an asset, decreased, and Office Machines, also an asset, increased. However, since the increase and the decrease were on the same side of the equation (the left side) the Total Assets remain the same.

What if Charles had purchased the computer from Machine Sales and promised to pay for it within 90 days? How would the records of the company be affected?

Purchased computer on account from Machine Sales Co.—$4000.

	Assets			= Liabilities			+ Owner's Equity
	Cash	Office Machines	Truck	Bank Loan	Accts. Pay., Machine Sales	Accts. Pay., Gas Co.	C. Wilson, Capital
Balances	*5 000.00*	*2 000.00*	*10 000.00*	*7 000.00*	*0.00*	*1 000.00*	*9 000.00*
Transaction		*+4 000.00*			*+4 000.00*		
Totals	*5 000.00*	*6 000.00*	*10 000.00*	*7 000.00*	*4 000.00*	*1 000.00*	*9 000.00*

$21 000.00 = $12 000.00 + $9 000.00

Now the Total Assets have changed from $17 000 to $21 000. However, the Total Liabilities have also changed from $8000 to $12 000. Office Machines, an asset, has increased; therefore, Total Assets have increased. Accounts Payable, Machine Sales, a liability, has increased; thus, Total Liabilities have also increased. This business transaction has affected both sides of the Fundamental Accounting Equation since both Total Assets and Total Liabilities have increased.

Finally, what if Charles purchased the computer for $4000 from Machine Sales by paying $1000 cash and promising to pay the remaining $3000 with 90 days?

Purchased computer on account from Machine Sales Co.—$4000. Paid $1000 cash and owed the balance on accounts payable—$3000.

	Assets			= Liabilities			+ Owner's Equity
	Cash	Office Machines	Truck	Bank Loan	Accts. Pay., Machine Sales	Accts. Pay., Gas Co.	C. Wilson, Capital
Balances	*5 000.00*	*2 000.00*	*10 000.00*	*7 000.00*	*0.00*	*1 000.00*	*9 000.00*
Transaction	*–1 000.00*	*+4 000.00*			*+3 000.00*		
Totals	*4 000.00*	*6 000.00*	*10 000.00*	*7 000.00*	*3 000.00*	*1 000.00*	*9 000.00*

$20 000.00 = $11 000.00 + $9 000.00

Cash, an asset, has decreased; Office Machines, an asset, has increased. The net result is an increase in the Total Assets. Accounts Payable, Machines Sales, a liability, has increased; thus, Total Liabilities have increased. This business transaction has affected both sides of the Fundamental Accounting Equation because both Total Assets and Total Liabilities have increased.

- A business transaction always affects at least two accounts in the Fundamental Accounting Equation.
- A business transaction may affect one or both sides of the Fundamental Accounting Equation.
- For all business transactions, the Fundamental Accounting Equation must remain in balance.

2. Following is a list of assets, liabilities, and owner's equity items for Gourmet Catering.

Cash	1 000.00
Accounts Receivable, J. Brown	200.00
Kitchen Equipment	2 000.00
Dining Room Equipment	800.00
Office Equipment	500.00
Accounts Payable, P. Easton Co.	1 000.00
Accounts Payable, Wallace & Carey	500.00
Iris St. Pierre, Capital	3 000.00

a. For each of the following transactions, indicate how each account in the Fundamental Accounting Equation is affected: increased or decreased. Use a + sign to indicate an increase and a – sign to indicate a decrease. After recording each transaction on the form, calculate the new balance f each account. The first transaction has been done for you.

Transactions:

1. Paid $100 cash to P. Easton Co. towards amount owed.
2. Received an additional investment of $300 cash from the owner, Ir St. Pierre.
3. Paid $200 cash for a large hot plate (Dining Room Equipment).
4. Purchased a large cooking pot. Did not pay cash, but charged it t P. Easton Co., $100 (Kitchen Equipment).

5. Received $100 cash from J. Brown in part payment of her bill.

6. Iris St. Pierre withdrew $200 cash from the business for her personal use.

7. Iris St. Pierre contributed a soup tureen (Dining Room Equipment) worth $100 to the business.

8. Paid $300 cash to Wallace & Carey on account.

9. Sold small hot plate for $50 cash (Dining Room Equipment).

10. Sold office duplicator for $100 cash.

	Assets					=	Liabilities		+	Owner's Equity
	Cash	Accts. Rec., J. Brown	Kitchen Equipment	Dining Room Equipment	Office Equipment		Accts. Pay., P. Easton Co.	Accts. Pay., Wallace & Carey		I. St. Pierre, Capital
Balance	*1 000.00*	*200.00*	*2 000.00*	*800.00*	*500.00*	=	*1 000.00*	*500.00*		*3 000.00*
Transaction 1	*–100.00*					=	*–100.00*			
New Balance	*900.00*	*200.00*	*2 000.00*	*800.00*	*500.00*	=	*900.00*	*500.00*		*3 000.00*
Transaction 2						=				
New Balance						=				
Transaction 3						=				
New Balance						=				
Transaction 4						=				
New Balance						=				
Transaction 5						=				
New Balance						=				
Transaction 6						=				
New Balance						=				
Transaction 7						=				
New Balance						=				
Transaction 8						=				
New Balance						=				
Transaction 9						=				
New Balance						=				
Transaction 10						=				
New Balance						=				

__________ Assets = __________ Liabilities + __________ Owner's Equity

b. Prepare a balance sheet for Gourmet Catering after the transactions in part a. have been recorded. Use today's date.

Compare your responses with those in the Appendix, Section 4: Activity 2

Activity 2 introduced you to the accounting skills involved in analysing, journalizing, and posting transactions. These skills are basic competencies for financial management and will be reinforced in future sections and courses.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of concepts, it is recommended that you do the Enrichment.

Extra Help

Accounting is a "paper trail" process that involves step-by-step procedures, all w a financial and paper basis. To open a set of books for a new business, an accountant would do the following:

- create a chart of accounts
- prepare an opening balance sheet
- open a general ledger
- record the opening balance sheet information in the general journal as th opening entry
- post the opening entry to the appropriate accounts in the general ledger

Remember that the debits must equal the credits and the Fundamental Accounting Equation must stay in balance at all times.

Once the opening entry has been posted, the general ledger will show the financial position of the business.

To further help you understand the journalizing and posting of business transactions, do the following questions.

1. The opening financial position is shown for Fran's Drapery, owned by Fran Mars. Record the changes required for the following transactions on the form provided. After each transaction, calculate the new totals and make sure the equation balances.

Transactions:

1. Purchased an electric stapler from Ace Supply, $75, on credit. It will be paid for within 30 days.

2. A new desk for the office is purchased for $50 cash.

3. Leader Co., a debtor, pays its debt in full.

4. A $100 service is performed for a customer who pays immediately in cash.

5. Fran Mars invests her own used truck for use by the business. The truck has a value of $6500.

6. $75 is paid to Ace Supply, a creditor.

7. The owner, Fran Mars, withdraws $100 from the business for her own use.

8. The truck is repaired at a cost of $65. The bill is paid in cash.

9. Fran Mars, the owner, invests an additional $300 in the business.

	Assets					= Liabilities		+ Owne Equi
	Cash	Acc. Rec., Leader Co.	Office Equipment	Office Furniture	Truck	Accts. Pay., Ace Supply	Accts. Pay., Pine Motors	Fran M Capit
Balance	*1 000.00*	*300.00*	*800.00*	*1 200.00*	*0.00*	*0.00*	*100.00*	*3 200*
#1								
New Balance								
#2								
New Balance								
#3								
New Balance								
#4								
New Balance								
#5								
New Balance								
#6								
New Balance								
#7								
New Balance								
#8								
New Balance								
#9								
New Balance								

__________ Assets = __________ Liabilities + __________ Owner's Equity

2. The balance sheet for Fort Landscaping as of December 31, 20xx is shown below.

Fort Landscaping			
BALANCE SHEET			
December 31, 20xx			
Assets		*Liabilities*	
Cash	*426 00*	*Accounts Payable:*	
Accounts Receivable:		*Acme Supply Co.*	*562*
K. Fosey	*525 00*	*Star Services*	*270*
N. McKay	*200 00*	*Total Liabilities*	*832*
Office Machines	*175 00*		
Equipment	*2967 00*	*Owners Equity*	
		Betty Bonn, Capital	*3461*
Total Assets	*4293 00*	*Total Liabilities and Owner's Equity*	*4293*

a. Record the Fort Landscaping balance sheet figures on the following form. The first two accounts have been done for you.

	Assets					= Liabilities		+ Owner's Equity
	Cash	Acc. Rec., K. Fosey	Acc. Rec., N. McKay	Office Machines	Equipment	Accts. Pay., Acme Supply Co.	Accts. Pay., Star Services	Betty Bonn, Capital
Balance	*426.00*	*525.00*						
#1								
New Balance								
#2								
New Balance								
#3								
New Balance								
#4								
New Balance								
#5								
New Balance								
#6								
New Balance								
#7								
New Balance								
#8								
New Balance								
#9								
New Balance								

b. Analyse the following transactions and record the necessary changes on the form provided for part a. After each transaction, ensure that the equation is still in balance.

Transactions for the month of January:

1. $100 cash is received from N. McKay in part payment of the amount owed by him.

2. $200 cash is paid to Acme Supply Co. in part payment of the debt owned to them.

3. A paper hole punch costing $35 is purchased for cash from the Stanford Company.

4. Fort Landscaping does the landscaping for the home of A. Seagris. For this service, they receive a fee of $2700 cash.

5. A used postage machine is purchased from Happy Herman Furniture for $450.00 cash.

6. Betty Bonn, the owner, invests an additional $300 cash in the business.

7. A used weed trimmer is purchased from Star Services for $200 c

8. The used weed trimmer is repaired by Star Services for $60. Th bill is paid in cash.

9. Betty Bonn withdraws $30 cash for her personal use.

Compare your responses with those in the Appendix, Section 4: Extra He

Enrichment

1. Rob McGreggor is opening a painting business which he will call Tartan Pa Co. He has prepared the following chart of accounts.

Tartan Paint Co.
Chart of Accounts

100 Assets
- 101 Cash
- 103 Accounts Receivable, E. Brown
- 110 Sprayers and Brushes
- 120 Vehicle

200 Liabilities
- 201 Bank Loan Payable
- 205 Accounts Payable, F. O'Toole

300 Owner's Equity
- 301 R. McGreggor, Capital
- 302 R. McGreggor, Drawings

400 Revenue
- 402 Painting Income

500 Expenses
- 501 Gas Expense
- 503 Miscellaneous Expense
- 506 Rent Expense
- 509 Utilities Expense

a. Prepare an opening balance sheet for Tartan Paint Co. as of May 1, 20xx. R. McGreggor started Tartan Paint Co. with the following assets and liabilities:

   Cash, $5000; Sprayers and Brushes, $2000; Vehicle, $12 000; Bank Loan Payable, $3000.

   You must calculate the amount of the Owner's Equity account.

b. Open a general ledger for Tartan Paint Co. and provide one ledger card for each of the accounts in the chart of accounts.

ACCOUNT　　　　　　　　　　　　　　ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

ACCOUNT ACCOUNT NO.

DATE	ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

c. Record the balance sheet information in the general journal as the open entry in the journal. Begin on page 1.

GENERAL JOURNAL — Pag

	Date		Account Title	POST REF.	Debit	Credit
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						

GENERAL JOURNAL						Page
	Date	Account Title	POST REF.	Debit	Credit	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
11						11
12						12

d. Record the following transactions in the general journal. These entries will follow the opening entry.

May (current year)

2 Bought some new paintbrushes from Hendrick's Paint Supply Co. for $150 cash.

3 Completed interior painting for E. Brown for $650. Sent her a bill which she will pay in 30 days.

4 Painted outside of D. Robinson's house. Robinson paid $500 cash.

5 Bought gas for the vehicle and paid $25 cash.

7 Paid one month's rent, $400 cash.

8 Received $1000 cash from various customers for minor painting jobs.

9 The owner, R. McGreggor, took $300 cash out of the business for personal use.

10 Paid the utility bill, $125.

11 Received $2500 cash from various customers for painting work.

14 Paid for repairs to the vehicle, $200 cash.

15 Received $300 cash from E. Brown as part payment on her account.

16 Borrowed cash from the bank, $4000.

17 R. McGregor, the owner, invested an additional $2500 in his business.

18 Purchased a paint sprayer from F. O'Toole on credit. Received invoice from O'Toole for $3250.

20 Made a payment of $200 on the bank loan.

e. Post the general journal to the general ledger.

f. Check the ledger balances to ensure that the total of the debit balances equals the total of the credit balances.

Compare your responses with those in the Appendix, Section 4: Enrichme

2. Alex Bailey has just inherited a movie theatre from a relative. Alex is not ve familiar with common accounting practices.

Alex's relative has not been in very good health lately and the business has become a little run down. The building needs some major renovations, whi will cost about $40 000.

The balance sheet prepared on the day that Alex inherited the business is a follows:

Rialto Theatre Co.			
BALANCE SHEET			
April 1, 20xx			
Assets		*Liabilities*	
Cash	2 000 00	*Accounts Payable*	4 00
Accounts Receivable	3 000 00	*Bank Loan Payable*	18 00
Land	10 000 00	*Mortgage Payable*	10 00
Building	50 000 00	*Total Liabilities*	32 00
Movie Equipment	7 000 00		
		Owner's Equity	
		Alex Bailey, Capital	40 00
Total Assets	72 000 00	*Total Liabilities and Owner's Equity*	72 00

After examining the balance sheet, Alex realizes that there is not enough ca to pay for the renovations. He does not want to borrow any cash. He is planning to talk to his accountant (you) about using his owner's equity to pa for the cost of the renovations.

As Alex's accountant, what will you tell him? Your response should be in the form of a paragraph. If you have access to a computer and a word processing package, prepare your answer using the computer. If not, write out your response in your notebook.

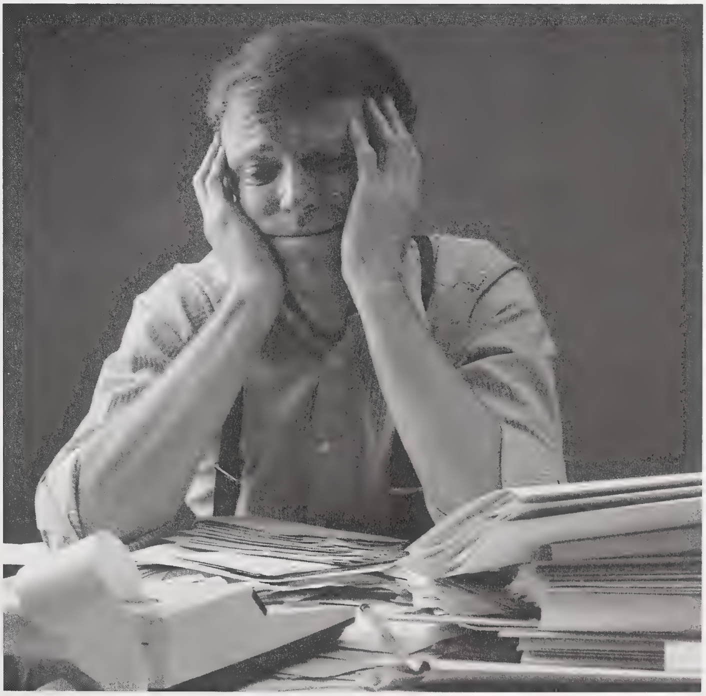
Compare your responses with those in the Appendix, Section 4: Enrichment.

CONCLUSION

At the beginning of Section 4, you were introduced to Kira, who was recording her life's events in her diary. An accountant records daily financial events of a company in the general journal and the general ledger. These events must be recorded accurately, and the accountant must follow the Generally Accepted Accounting Principles. In this section you have developed the skills of analysing transactions, recording in the journal, and posting to the ledger. You also learned about the importance of post references when posting from the journal to the ledgers. Post references help prevent confusion about where data is located, as is experienced by Hank in this photo.

ASSIGNMENT

Turn to Assignment Booklet B and do the assignment for Section 4.



SECTION 5

The Trial Balance

JUST as a gymnast must stay in balance to continue moving across the beam, a business owner must continually keep the company books in balance to continue in business. A business cannot wait until the end of the year to determine if the books are balanced. The books must be balanced on a regular basis.

In this section you will complete formal and informal trial balances to help you determine the accuracy of accounting records. In addition, you will examine methods of correcting errors in accounting records.

ACTIVITY 1

Introduction to the Trial Balance

"Ah, the accounting is done!" sighed Amarendra, as she completed the last entry for her father's business.

"Is it correct?" inquired her father.

"Sure," said Amarendra, "I entered all the entries from the general journal into the ledger, and then I placed the post reference back in the journal to indicate that I had completed the transaction."

"How can you prove to me that the ledger is balanced?" asked her father.

"Prove it!" exclaimed Amarendra. "Do you want me to go over every entry again?"

"No," sighed her father. "Just add up all the debit balances in the ledger and the add up all the credit balances. If the two numbers are the same, then the ledger in balance, and it is probably correct."

trial balance: *a list of all the debits and credits in the general ledger, proving that total debits equal total credits*

Amarendra's father is correct. The only method to determine if the ledger is correctly balanced is to take a **trial balance**. A trial balance is a listing of all the debit and credit balances, and the totals of the two should be equal. There are t types of trial balances: an informal trial balance and a formal trial balance.

Informal Trial Balance

To take a balance of the ledger informally, an adding machine that will print out a tape may be used. If the accountant is using a computer program, such as a spreadsheet, then the spreadsheet may be programmed to record the trial balance automatically.

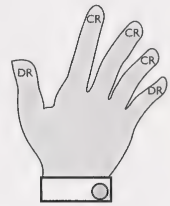
ALLAN TRUCKING
TRIAL BALANCE
JULY 9, 20xx

0 .
215 .
770 .
2 665 .
63 075 .
22 174 .
18 000 .
4 146 .
6 516 .
60 387 .
0 .

Here is a quick method of obtaining an informal trial balance:

- Check the accuracy of the balance in each account and make sure that the account is marked as a debit or a credit balance. Remember which accounts have debit or credit balances.

Asset Accounts	Debit Balance
Liability Accounts	Credit Balance
Owner's Equity Accounts	Credit Balance
Revenue Accounts	Credit Balance
Expense Accounts	Debit Balance



- Clear the adding machine with the Total key and make sure that the tape begins with a zero balance or a star (*) to indicate no balance.

- Enter all the accounts in the order in which they appear in the chart of accounts.

  – If the account has a debit balance, you will add it.
  – If the account has a credit balance, you will subtract it.

- When the last balance has been entered, press the Total key to print the results.

- If the result is a zero, you have a **zero proof** and the ledger is in balance—total debits equal total credits.

proof: *the balance ned when all credit ces are cted from all debit ces*

If the result is not zero, there is an error in the ledger and the tape can be used to find it.

If you prefer, you can add up all the debits on one tape and find the total, and then add up all the credits on a second tape and find the total for that one. If the totals of the two tapes agree, the books are in balance.

JAKITA PLUMBING
DEBITS

0 . T
67 364 . +
1 350 . +
1 775 . +
2 500 . +
426 . +
5 300 . +
25 . +
95 915 . T

JAKITA PLUMBING
CREDITS

0 . T
1 500 . +
8 000 . +
40 389 . +
46 026 . +
95 915 . T

Why Bother with a Trial Balance?

A trial balance is useful because it proves the equality of the total debits and credits in the general ledger. It also lists all the account balances, giving a brie picture of every account that has a balance in the ledger.

1. An accounting clerk supplied the following general ledger balances as at January 31, 20xx for Smith Auditing.

Cash	15 000.00
Equipment	6 500.00
Vehicle	18 500.00
Accounts Payable	20 000.00
Brander Smith, Capital	20 000.00
Brander Smith, Drawings	1 500.00
Fees Earned	16 500.00
Miscellaneous Expense	2 500.00
Salary Expense	9 000.00
Supplies Expense	3 500.00

In your notebook, prepare an informal trial balance using two columns: one for debits and one for the credits.

Compare your responses with those in the Appendix, Section 5: Activity

Preparing a Formal Trial Balance

A formal trial balance is a written list of the general ledger accounts and their balances. An informal trial balance is often prepared before a formal trial balan is written.

The trial balance for Clubmore Theatre that follows illustrates the parts of a formal trial balance.

- There must be a heading which includes the who? what? and when? of financial statements: the name of the business, the type of statement, and the date on which the statement is prepared.

- There must be a listing of all the account titles, numbers, and balances. T accounts are listed in the order in which they occur in the ledger. Debit balances are entered in the debit column and credit balances are entered the credit column.

- The amount columns must be singled ruled and the totals doubled ruled, with a balance sheet. **Remember:** The double rule indicates that the statement is complete and balanced.

Clubmore Theatre			
TRIAL BALANCE			
January 31, 20xx			
Account Title	NO.	Debits	Credits
Cash	101	67 364 00	
Accounts Receivable, A. Beauregard	104	1 350 00	
Supplies	121	1 775 00	
Equipment	131	17 175 00	
Accounts Payable, Romanov Bros. Ltd.	208		1 500 00
Bank Loan Payable	231		8 000 00
W. Wilcox, Capital	301		40 389 00
W. Wilcox, Drawings	302	2 500 00	
Admission Revenue	401		46 026 00
Miscellaneous Expense	501	426 00	
Salaries Expense	502	5 300 00	
Utilities Expense	503	25 00	
		95 915 00	95 915 00

2. The following is a list of the accounts and their balances for Dr. Phillip Kondritos, a dentist. Prepare a formal trial balance for Dr. Kondritos as of January 31, 20xx.

101	Cash	1 771.36
102	Term Deposit	15 680.00
103	Accounts Receivable	4 125.00
110	Dental Equipment	70 648.00
112	Office Equipment	5 875.00
202	Accounts Payable	648.00
210	Note Payable	29 500.00
301	Phillip Kondritos, Capital	70 000.00
302	Phillip Kondritos, Drawings	400.00
401	Professional Fees Earned	6 694.00
501	Dental Supplies Expense	95.56
502	Lab Fees Expense	700.00
503	Rent Expense	5 000.00
505	Salaries Expense	2 200.00
506	Telephone Expense	285.33
507	Utilities Expense	61.75

Account Title	NO.	Debits	Credits

Compare your responses with those in the Appendix, Section 5: Activity 1.

Preparing the Journal Proof

The double entry in the journal is a valid checking system. For each transaction, a debit and a credit is recorded and these amounts are equal. This important rule of *debits equal credits* makes it possible to prove the journal page in two ways:

- by routinely totalling each column on a journal page before any posting is done

- by totalling the money columns before turning to a new page

A journal proof is prepared either manually or by using a computer program. In the manual method, a calculator with a tape printout is often used to perform the addition. Below is a proof of page 1 of the general journal of Wardco Services.

GENERAL JOURNAL Page 1

Date		Account Title	Post Ref	Debit	Credit
20xx June	1	*Cash*		40 000 00	
		E. Ward, Capital			40 000 00
		Initial investment in business			
	2	*Land*		15 000 00	
		Building		25 000 00	
		Cash			20 000 00
		Mortgage Payable			20 000 00
		Purchased land for cash and building for			
		$5000 cash and balances on mortgage payable			
	3	*Office Equipment*		1 500 00	
		Cash			1 500 00
		Paid cash for equipment			
	4	*Office Equipment*		2 000 00	
		Accounts Payable, ABC Co. Ltd.			2 000 00
		Bought equipment on credit			
	5	*Cash*		1 800 00	
		Fees Earned			1 800 00
		Cash customer			
	6	*Accounts Receivable, J. Monneypenney*		900 00	
		Fees Earned			900 00
		Sent invoice to J. Monneypenney for services			
	7	*Cash*		10 000 00	
		E. Ward, Capital			10 000 00
		Additional investment by owner			

Journal Proof
Page 1
June 7, 20xx

40 000 . +
15 000 . +
25 000 . +
1 500 . +
2 000 . +
1 800 . +
900 . +
10 000 . +
96 200 . T

40 000 . +
20 000 . +
20 000 . +
1 500 . +
2 000 . +
1 800 . +
900 . +
10 000 . +
96 200 . T

Notice how the debit column is totalled first, followed by the credit column. If th two totals agree, then the journal is ready to be posted to the ledger.

3. Page 1 of the general journal for Prather's Pitch and Putt follows. Prepare a journal proof of the page, either by using a calculator with tape or record the numbers in your notebook.

GENERAL JOURNAL Page

	Date		Account Title	Post Ref.	Debit	Credit
1	20xx May	1	*Cash*		*900 00*	
2			*Accounts Receivable, J. Sterling*		*300 00*	
3			*Office Machines*		*500 00*	
4			*Golf Equipment*		*2 200 00*	
5			*Maintenance Equipment*		*900 00*	
6			*Accounts Payable, Melcor Equipment Co.*			*650 00*
7			*Accounts Payable, Southern Supply Co.*			*350 00*
8			*S. Prather, Capital*			*3 800 00*
9			*To record opening balances*			
10						
11		2	*Cash*		*500 00*	
12			*S. Prather, Capital*			*500 00*
13			*Additional investment*			
14						
15		4	*Maintenance Equipment*		*100 00*	
16			*S. Prather, Capital*			*100 00*
17			*Additional investment*			
18						
19		4	*Office Machines*		*50 00*	
20			*Cash*			*50 00*
21			*Purchased calculator*			
22						
23		7	*Maintenance Equipment*		*400 00*	
24			*Accounts Payable, Melcor Equipment Co.*			*400 00*
25			*Purchased lawn mower on credit*			
26						
27		11	*Accounts Payable, Southern Supply Co.*		*200 00*	
28			*Cash*			*200 00*
29			*Paid on account*			
30						
31						
32						

Compare your responses with those in the Appendix, Section 5: Activity 1.

Activity 1 introduced you to informal and formal trial balances and journal proofs. But what if the trial balance does not balance? How can you check your work? In Activity 2, the topic of accounting errors and their correction will be reviewed.

ACTIVITY 2

Accounting Errors and Their Correction

Lena came home and went in to her bedroom to get ready for bed. It had been a wonderful party. As she glanced in the mirror, she noticed that one of her expensive diamond earrings was missing! Feeling sick inside at the loss, she slumped down on the bed and began to think. Where could she have lost the earring? She remembered seeing the earring as she got her coat at the Fekete's home. So she had the earring in the car! She hurried down to her car with a flashlight and began to search for the earring. It *had* to be in the car. Sure enough, after searching for several minutes, the twinkling diamond appeared between the seat cushions. What a relief! Lena felt a wave of satisfaction as she realized that she had been able to retrieve the valuable earring.

What helped Lena find her earring? First, she began looking for the lost item as soon as she realized it was missing. Second, she retraced her steps in her mind and searched in the last place first. Finally, she worked diligently, knowing that the earring had to be in the car.

What does this scenario have to do with accounting? Well, the same rules apply to finding and correcting errors in accounting. You must keep your books and records up to date at all times, and then, when an error occurs, it is easier to find. Second, you must retrace your steps in accounting. Where did the number come from? Was it recorded correctly? Third, you must work diligently, knowing that the error is there to be found.

Finding Errors in Accounting Records

There are some typical errors that may cause the trial balance to be out of balance. For example, making an error in the addition of the debits or the credits, forgetting to list an account balance, or listing a debit account balance as a credit can cause the trial balance to be out of balance. These types of errors are quite common.

What should you do if you find that your trial balance does not balance? Follow these steps.

Step 1: Add the columns again. Try adding from the bottom to the top rather than from the top to the bottom.

Step 2: Find the difference between the total of the Debit column and the total o the Credit column. Look for an amount equal to this difference in the general ledger. You may have omitted this account balance from the tri balance.

Step 3: Divide the difference between the Debit column and Credit column by 2 Look for an amount equal to this result on the trial balance. You may have written a Debit balance in the Credit column, or a Credit balance in the Debit column.

Step 4: Divide the difference between the Debit column and Credit column by 9 If the difference is evenly divisible by 9, you may have reversed the figures in an amount. For example, you may have written 47 instead of 74, 1.50 instead of 5.10, or 5.98 instead of 5.89. This type of error is called a **transposition error**.

transpostion error: *an error in accounting when numbers are reversed*

For example, assume that your trial balance is out by 0.63. The number 63 is a multiple of $9 (9 \times 7 = 63)$. You have probably made a transposition error in the cents column. You may have written, 07 instead of 70, 18 instead of 81, 29 instead of 92, and so on. You also may have written the decimal point in the wrong position. This type of error is known as a **slide error**. For example, you may hav written 73.00 instead of 730.00. Therefore, if the difference is exactly divisible by 9, the error is most likely a transposition or a slide error.

slide error: *an error in accounting when the decimal point is incorrectly placed to the left or right*

A trial balance may also be out of balance because of errors in posting. For example, mistakes made in calculating account balances in the general ledger, mistakes made in copying amounts incorrectly from a journal to the general ledger, and forgetting to post one part of an entry from the journal ledger are all common errors.

Correcting Errors in Accounting Records

An error in a journal or a ledger must always be corrected so both the error and i correction are clearly visible. If you are using an electronic accounting package, you must make an actual correcting entry. The program will not generally allow you to go back and change numbers once you have entered them.

If you are doing your accounting manually, draw a line through the error and wri the correction neatly above it. Write your numbers small and neatly to allow for corrections if necessary.

Note: You may wish to review the General Accounting Formalities at the beginning of Section 1.

1. Rachel Frankson is working on the balance sheet for her company. The following is her partially completed balance sheet.

R. Frankson and Company			
BALANCE SHEET			
June 30, 20xx			
Assets		*Liabilities*	
Cash	5 000 00	*Accounts Payable*	2 000 00
Accounts Receivable	3 000 00	*Bank Loan*	5 350 00
Building	97 000 00		
Supplies	1 500 00		
Equipment	5 300 00		

Rachel has made a few errors. Use the following account balances to correct Rachel's errors; then complete the balance sheet, and determine the balance in the Rachel Frankson, Capital account.

Cash	5 000.00	Equipment	5 300.00
Accounts Receivable	3 000.00	Accounts Payable	2 000.00
Building	79 000.00	Bank Loan	53 500.00
Supplies	1 500.00		

2. State whether the following errors would cause a trial balance to be out of balance and by how much. Explain your answers.

   a. The entry to record the purchase of delivery equipment was omitted from the Delivery Equipment account, $200.

   b. A new desk was purchased for cash. Cash was credited, but Office Supplies was debited instead of Office Equipment. The cost of the desk was $500.

   c. Cash of $100 was received from a client for services performed. Cash was debited for $100 and Capital was credited for $10.

   d. Cash of $500 was borrowed from the bank. Cash was credited for $500 and Bank Loan was debited $500.

Compare your responses with those in the Appendix, Section 5: Activity 2.

Finding and correcting errors is a time consuming and frustrating aspect of financial management. Preventing errors in your work can improve your productivity and increase your enjoyment of financial management. Hopefully, y have developed basic skills in detecting errors in financial statements from this introduction to the topic.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of t concepts, it is recommended that you do the Enrichment.

Extra Help

It takes hard work and good accounting habits to locate errors in accounting. Remember to follow these steps to help you locate your error:

- Re-add the trial balance columns.
- Check the figures from the ledger against those of the trial balance. It may help if you have someone assist you. You can read out the numbers while t other person checks them off.
- Recalculate the account balances.
- Check that there is a balanced accounting entry in the accounts for each transaction.

1. Andrew Farkas is the owner of a small appliance store. At the end of the year, he attempted to prepare a trial balance of the accounts in the general ledger. The balances are correct, but Mr. Farkas had no knowledge of double-entry accounting.

Find the errors and prepare a corrected trial balance. Include appropriate account numbers for the accounts.

Andrew Farkas			
TRIAL BALANCE			
December 31, 20xx			
Account Title	NO.	Debit	Credit
Cash		*3 000 00*	
Land		*50 000 00*	
Accounts Receivable, Anderson			*10 940 00*
Supplies		*3 400 00*	
Office Equipment		*15 350 00*	
Automobile			*21 200 00*
Building		*140 000 00*	
Accounts Payable, Sanders		*5 160 00*	
Bank Loan			*52 000 00*
J. Stron, Capital			*108 230 00*
Mortgage Payable			*78 500 00*
		216 910 00	*270 870 00*

Account Title	NO.	Debits	Credits

Compare your responses with those in the Appendix, Section 5: Extra Help.

2. The T-accounts for Carlos Anaka as of June 30, 20xx follow. Prepare a forma trial balance for C. Anaka as of June 30. Give the accounts appropriate accou numbers.

Account	Debit	Credit
Cash	*5000.00*	
Accounts Receivable, P. Onno	*850.00*	
Accounts Receivable, G. Slaught	*1124.00*	
Accounts Receivable, R. Tamo	*3500.00*	
Supplies	*1585.00*	
Equipment	*25 350.00*	
Automobile	*22 800.00*	
Accounts Payable, J. Batt		*785.00*
Accounts Payable, H. Black		*1200.00*
Accounts Payable, W. Parker		*1000.00*
Bank Loan		*25 000.00*
C. Anaka, Capital		*32 224.*

Account Title	NO.	Debits	Credits

Compare your responses with those in the Appendix, Section 5: Extra Help

Enrichment

1. Examine the following situations and indicate whether they would or would not cause the trial balance to be out of balance. If you decide that the trial balance would be out of balance, state by how much.

Transaction	Trial Balance Correct	Trial Balance Incorrect (by amount shown)
A payment for equipment was recorded as a debit of $495 to Equipment and a credit of $459 to Cash.		
Cash received from a customer was recorded as a debit of $280 to Cash and a credit of $280 to Accounts Payable.		
A credit of $300 to the Capital account was recorded twice.		
An account balance of $240 was transferred to the wrong side of the trial balance.		
A payment of $495 to a creditor was recorded by a debit to Accounts Payable of $495 and a credit to Cash of $49.		

Compare your responses with those in the Appendix, Section 5: Enrichment.

2. The trial balance prepared by your company at the end of the month did not balance. In reviewing the entries for the month, the accountant noticed that one of the transactions was recorded as a debit to Office Equipment for $900 and a debit to Accounts Payable for $900. The purchase was made on credit. Answer the following questions and explain your answer for each.

   a. Was the Accounts Payable account overstated, understated, or correctly stated on the trial balance? If overstated or understated, show by how much.

   b. Was the total of the debit column of the trial balance overstated, understated, or correctly stated? If overstated or understated, show by how much.

c. Was the Office Equipment account overstated, understated, or correctly stated? If overstated or understated, show by how much.

Compare your responses with those in the Appendix, Section 5: Enrichment

CONCLUSION

At the beginning of this section, a gymnast was balancing on a beam. Keeping th accounting records in balance for a company may truly mean the survival of the business. Conscientious accounting practices and good work habits will ensure success in the field of financial management.

ASSIGNMENT

Turn to Assignment Booklet B and do the assignment for Section 5.

Petty Cash

Natalya was busily trying to complete a letter. The office had been hectic all day. Natalya sighed to herself as another courier approached her desk. This time he required payment of $12.50.

Natalya opened the petty cash box in her desk drawer. There was only $10 left in the petty cash, so she grabbed $4 from her purse and handed the $14 to the courier. "Keep the change." she said.

A petty cash box is used to pay for miscellaneous expenses that are too small to pay for with a cheque. Most businesses establish a petty cash fund and one employee is asked to administer the fund.

In this section you will discover how to establish a petty cash fund, how to monitor the fund, and how to replenish the petty cash when it becomes low.

SECTION 6

ACTIVITY 1

The Petty Cash Fund

***petty cash fund:** a small amount of cash kept on hand to pay for minor expenditures*

A **petty cash fund** is a practical method of paying for small expenditures, such as supplies, a newspaper, or courier services that would not warrant the writing of a cheque.

1. Was it wise of Natalya to pay for the balance of the courier fees with her own money? What about the tip that she gave the courier? How will this be accounted for?

Compare your responses with those in the Appendix, Section 6: Activity 1.

The petty cash fund is generally kept in a locked box or drawer in the office. One person is put in charge of the fund and is generally responsible for any payments made from the fund.

The treatment of petty cash involves three parts:

- establishing the fund
- using the fund
- replenishing the fund

Establishing the Petty Cash Fund

To establish the petty cash fund, a cheque is written for an amount sufficient to cover minor disbursements for a reasonable amount of time—perhaps a month. The cheque is cashed at the bank and the cash is put into the petty cash box.

Suppose a $100 petty cash fund is established for one month. The journal entry to establish the fund is shown.

GENERAL JOURNAL — Page 9

	Date		Account Title	Post Ref.	Debit	Credit
1	20xx Jan.	2	*Petty Cash*		*100.00*	
2			*Cash*			*100.00*
3			*To establish a petty cash fund*			
4						

Petty cash is an asset and appears in the current assets section of the balance sheet. It usually comes just before cash in the general ledger. It is more liquid than the Cash account because cheques do not have to be written.

Using the Petty Cash Fund

cash her: *a form ng the nt paid, and details*

cher is l in the petty ox each ash is taken the box.

Each time a petty payment is made from the petty cash box, a **petty cash voucher** is put into the box to replace the cash. At any time during the month, the total cash in the box plus the total amount of the vouchers should equal the amount of cash in the fund at the beginning of the month.

A petty cash voucher will be similar to the following example. Notice that the "For" line is used to show what the money was used for and that the "Charge to" line is used to show the ledger account in which to record the transaction.

Petty Cash Voucher

No. *1* Date *July 19* 20 *xx*

Paid to *Willford Stationers* $ *4.50*

For *office supplies*

Charge to *Supplies*

Payment Received Approved by

No journal entries are required when a petty cash voucher is completed.

2. You are the office manager for Dream Bay Spas. You have decided to set up a petty cash fund to handle small payments of cash. After careful consideration, you decide on a petty cash fund of $250 to last you a month.

   a. Establish the petty cash fund on page 11 of the general journal. Use May 1, 20xx as the date.

GENERAL JOURNAL Page ___

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3

   b. During the month, the following petty cash disbursements were made. Prepare a petty cash voucher for each payment. Start the petty cash voucher numbers at 001. You approve all payments. Use any name for the payment received section of the voucher.

May 2 Bought supplies from Office Supply Co. for $24.50 (Supplies).

6 Bought gas for the delivery van for $35, from Gasco Ltd. (Automobile Expense).

12 Paid $36 for various coffee room supplies to Foodco Ltd. (Miscellaneous Expense).

18 Bought postage stamps from the post office, $38 (Postage Expense).

23 Paid for newspaper delivery, $12, to Lethbridge Weekly (Miscellaneous Expense).

28 Paid Speedy Courier Ltd. for delivery of parcel, $13.50 (Deliver Expense).

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______________ Approved by ______________

Compare your responses with those in the Appendix, Section 6: Activity I.

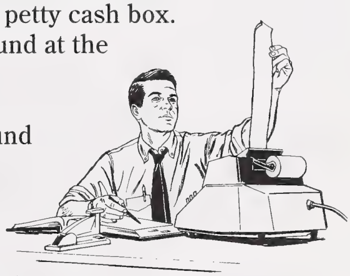
This first activity has introduced you to the accounting concept of a petty cash fund. Activity 2 will now give you practice in recording entries in a petty cash fund.

ACTIVITY 2

Recording Entries in a Petty Cash Fund

The Petty Cash Summary

At the end of the month, the individual in charge of the petty cash fund will add up all the vouchers and count the remaining cash in the petty cash box. The two items should equal the total amount in the fund at the beginning of the month.



Vouchers	+	Cash	=	Total Petty Cash Fund
$90.00	+	$10.00	=	$100.00

Once the vouchers are added, they are then sorted into piles according to which account is being charged.

Suppose at the end of the month there are four piles of vouchers with totals for each pile. The clerk would complete a Petty Cash Summary as follows:

Petty Cash Summary Date:	
Account	**Amount**
Supplies	*26.00*
Postage	*12.00*
Sales Returns and Allowances	*2.50*
Miscellaneous Expense	*49.50*
Total	*90.00*
Approved:__________	

If no errors were made during the month, there should be $10 left in the petty cash fund.

Replenishing the Petty Cash Fund

Replenishing the fund means removing the vouchers from the petty cash box an bringing the amount of cash in the box back up to $100 to begin a new month.

Since $10 was left in the fund at the end of the month, a cheque is now written fo $90. The cheque is cashed and the money is put back into the petty cash box, bringing the fund back up to $100.

The journal entry for the replenishment of the petty cash fund would appear as follows. Notice that cash was credited for the total amount of all expenditures. Transactions that occur on the same day and have one account in common can b journalized in this way. They are called combined entries. The transactions for petty cash occur on different days; but because they are journalized on the same day and all affect Cash, they are combined.

GENERAL JOURNAL — Page 13

	Date		Account Title	POST REF.	Debit	Credit
1	*20xx Sept.*	*30*	*Supplies*		*26 00*	
2			*Miscellaneous Expense*		*49 50*	
3			*Postage*		*12 00*	
4			*Sales Returns and Allowances*		*2 50*	
5			*Cash*			*90 00*
6			*To replenish the petty cash fund*			

Note that the Petty Cash account is not used when the fund is replenished. is only used when the fund is being set up, or if the owner decides that the total amount of the fund should be higher or lower.

1. a. Use the petty cash vouchers you prepared for question 2 of Activity 1 to complete the following summary of petty cash expenditures for May 20xx.

Petty Cash Summary

Date:

Account	Amount
Supplies	
Automobile Expense	
Delivery Expense	
Miscellaneous Expense	
Postage Expense	
Total	
Approved:__________	

b. Show the entry to replenish the petty cash fund on page 23 of the general journal on May 31, 20xx.

GENERAL JOURNAL Page

	Date		Account Title	Post Ref.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8

Discrepancies in the Petty Cash Fund

On rare occasions, the petty cash vouchers plus the cash in the box may not equal $100 at the end of the month. The cash is usually short but can occasionally be over. Regardless of whether the cash is short or over, the new month's petty cash fund should start off at exactly $100.

2. What are some of the reasons that the petty cash fund might be over or short of cash at the end of the month? Provide your answer in the form of a paragraph.

Compare your responses with those in the Appendix, Section 6: Activity 2.

Suppose that, at the end of the month, the vouchers and cash remaining in the box do not total $100.

Supplies	26.00
Postage	12.00
Sales Returns and Allowances	2.50
Miscellaneous Expense	49.50
Total Vouchers	90.00
Cash in Petty Cash Box	8.50
Total Cash and Vouchers	98.50

***…sh short and …er:** an …ount used to …ord small …crepancies in …h*

…e account can …an expense …sh is short) or …evenue (cash …over).

There is a $1.50 error somewhere. The fund is short by $1.50. An account called **Cash Short and Over** is debited for the $1.50 shortage.

The nature of this account is determined by its balance at the end of the accounting period. If the account ends up with a debit balance, it appears in the income statement as an expense. If it ends up with a credit balance, it appears on the income statement as a revenue. Most often, it is an expense. Look at the example of a cash shortage and a cash overage that follow.

In this case, there is a cash shortage, so it is recorded as a general debit.

GENERAL JOURNAL Page 39

	Date		Account Title	POST REF.	Debit	Credit
1	20xx Sept.	30	*Supplies*		26 00	
2			*Postage*		12 00	
3			*Sales Returns and Allowances*		2 50	
4			*Miscellaneous Expense*		49 50	
5			*Cash Short and Over*		1 50	
6			*Cash*			91 50
7			*To replenish the petty cash fund*			

If, at the end of the month, the total cash and vouchers added up to $101.50, there would be a cash overage of $1.50. This is recorded as a general credit.

Supplies	26.00
Postage	12.00
Sales Returns & Allowances	2.50
Miscellaneous Expense	49.50
Total Vouchers	90.00
Cash in Petty Cash Box	11.50
Total Cash and Vouchers	101.50

GENERAL JOURNAL Page 39

	Date		Account Title	POST REF.	Debit	Credit
1	20xx Sept.	30	*Supplies*		26 00	
2			*Postage*		12 00	
3			*Sales Returns and Allowances*		2 50	
4			*Miscellaneous Expense*		49 50	
5			*Cash Short and Over*			1 50
6			*Cash*			88 50
7			*To replenish the petty cash fund*			

3. The June 20xx summary of petty cash expenditures for Handyman Hardware is given. The petty cash fund was established for $250.

Petty Cash Summary	
Date:	
Account	**Amount**
Supplies	*66.50*
Automobile Expense	*86.50*
Delivery Expense	*10.00*
Miscellaneous Expense	*45.00*
Postage Expense	*38.00*
Total	*246.00*
Approved:___________	

a. The petty cash box has $3 left in it on June 30, 20xx. There should be $4 left. Journalize the entry to replenish the petty cash fund on page 19 of the general journal.

GENERAL JOURNAL Page

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8

b. Now assume the petty cash box has $4.75 left in it on June 30, 20xx. Journalize the entry to replenish the petty cash fund.

GENERAL JOURNAL					Page
	Date	Account Title	POST REF.	Debit	Credit
1					
2					
3					
4					
5					
6					
7					
8					

Compare your responses with those in the Appendix, Section 6: Activity 2.

You have been introduced to the concept of journalizing petty cash vouchers in a general journal. This concept is transferable to electronic accounting systems an other types of journals.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of th concepts, it is recommended that you do the Enrichment.

Extra Help

The purpose of the petty cash fund is to simplify the duties of the accounting cler Rather than having to issue cheques for small amounts, one cheque is issued to establish the fund, and one cheque is issued each month to replenish the fund. The small amounts are then categorized using the voucher summary, and the amounts are recorded in the appropriate accounts once a month. This system reduces the amount of accounting involved, but requires a conscientious individu to handle the petty cash fund because the fund is open to abuse such as borrowin theft, and disregard for the vouchers that are the source documents for the funds

There are three operations involved in accounting for a petty cash fund:

- establishing the fund: The fund is usually large enough to make small disbursements for a period of one month. This cuts down on the amount of journalizing required. An upper limit is sometimes placed on the amount th can be paid out of the fund for any one transaction; for example, $25. Any payments greater than $25 would require a cheque to be written.

- using the fund: Small amounts are paid out of the fund for various petty expenditures. Each time cash is taken from the fund, a petty cash voucher replaces the cash taken. The voucher records all details of the payment. At any given moment, the cash in the fund plus the amounts shown on the vouchers should equal the amount for which the fund was originally established.

- replenishing the fund: If the estimate was reasonably accurate when the fund was established, there will be many vouchers and very little cash in the petty cash box at the end of the month. It is now time to replace the vouchers with more cash and get ready to start another month of petty cash transactions.

All of the vouchers are taken out of the petty cash box and separated according to the account to which they belong. A journal entry is made debiting each of the accounts stated on the vouchers. A cheque is written for the total amount of the vouchers. A credit to Cash is made for the amount of the cheque. The cheque is taken to the bank and cashed, and the cash is put back into the petty cash box. The fund is now ready to receive another month's petty cash transactions.

1. The XYZ Company decided to establish a petty cash fund to handle the many small payments that occur during the month. The fund is for $200.

   a. Journalize the establishment of the fund for $200 on page 13 of the general journal. The date is June 1, 20xx.

GENERAL JOURNAL — Page 13

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3

   b. Use the petty cash vouchers provided to record the following petty cash transactions. Note that no journal entries are required when using the vouchers. All of the journalizing will be done at the end of the month when the fund is replenished. Begin numbering the vouchers at 001. Use your own initials to approve each voucher.

   June

   2 Bought postage stamps for $38 from the post office (Postage Expense).

   4 Paid Patrick O'Shaunessy, a student, to clean the office windows, $20 (Miscellaneous Expense).

   10 Bought gas from Gasco Ltd. for the delivery truck, $35 (Gas Expense).

14 Paid Speedy Courier Company to deliver a parcel, $18.50 (Delivery Expense).

19 Bought postage stamps for $76 from the post office (Postage Expense).

28 Bought supplies for the coffee room from IBA Foods Ltd., $10 (Miscellaneous Expense).

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

Petty Cash Voucher

No. ______ Date ______ 20 ____

Paid to ______________________ $ ______

For ______________________

Charge to ______________________

Payment Received ______ Approved by ______

c. Complete the following summary of petty cash disbursements for the month.

Petty Cash Summary	
Date:	
Account	Amount
Delivery Expense	
Gas Expense	
Miscellaneous Expense	
Postage Expense	
Total	
Approved:__________	

d. Record the replenishment of the petty cash fund in the general journal. On June 30, the petty cash box had $1.50 cash left in it.

GENERAL JOURNAL Page 13

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8

2. a. Record the general journal entry to establish a petty cash fund in the amount of $100 on September 5, 20xx.

GENERAL JOURNAL Page 24

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4

b. Jim Baxter, the keeper of the fund, presents you with the following vouchers and asks you to replenish the fund.

Freight charges on merchandise (Delivery Expense)	22.10
Postage Expense	14.60
Office Supplies	18.25
Donations (Misc. Expense)	15.00
Gift for co-worker (Misc. Expense)	16.30

Prepare a petty cash summary on the form provided.

Petty Cash Summary

Date:

Account	Amount
Office Supplies *Delivery Expense* *Miscellaneous Expense* *Postage Expense*	
Total	
Approved:__________	

Compare your responses with those in the Appendix, Section 6: Extra Help.

Enrichment

1. The office manager of the Allalta Co. decides that a petty cash fund for $50 should be established for disbursing petty amounts over a monthly period. She cashes a cheque for $50 and puts the cash into her locked filing cabinet drawer.

The fund is used during the month of January, 20xx. At the end of the month, the office manager prepares the following summary of the petty cash transactions for January.

Petty Cash Summary	
Date:	
Account	Amount
Supplies	*18.50*
Gas Expense	*11.30*
Miscellaneous Expense	*14.00*
Postage Expense	*4.20*
Total	
Approved:__________	

There is $1.50 left in the petty cash fund.

a. Show the journal entry for the establishment of the fund on January 1.

GENERAL JOURNAL — Page 34

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4

b. Show the journal entry to replenish the fund on January 31.

GENERAL JOURNAL — Page 34

	Date		Account Title	POST REF.	Debit	Credit	
1							1
2							2
3							3
4							4
5							5
6							6

Compare your responses with those in the Appendix, Section 6: Enrichment.

Technology

Ethics

2. One day you are talking to your friend who is the manager at a large hardwar store that is divided into departments. You mention that because you agreed work overtime last week, your supervisor gave you dinner money out of petty cash. A voucher had to be filled out and authorized. Your friend is surprised by what he calls all the "red tape" just to get a few dollars. He tells you that if you worked for him, he would just tell you to get the money from one of the cashiers and put a note in the till to account for the money. Explain to your friend why it is necessary to keep better control of cash than this. Tell him how to set up a petty cash fund of $100. Your answer must be in the form of a paragraph. If you have access to a computer with a word processing package, you may enter your answer into the computer and print out a copy to be put into your notebook. Otherwise, write your answer directly into your noteboo

Compare your responses with those in the Appendix, Section 6: Enrichment

CONCLUSION

This section began with Natalya, the receptionist who was the administrator of th petty cash fund. Now that you have completed this section, you should be in a better position to advise Natalya about the operation of the petty cash fund. This section has focused on establishing a petty cash fund, using the fund, and replenishing the fund.

ASSIGNMENT

Turn to Assignment Booklet B and do the assignment for Section 6.

S • U • M • M • A • R • Y

In Financial Management 1020 you were introduced to the accounting cycle by completing accounting entries. You established a set of books and began recording business transactions. You were also introduced to terminology unique to financial management. Finally, you were introduced to the petty cash voucher system and practised recording entries for petty cash.

You have now developed the skills to complete the basic accounting cycle up to the trial balance stage.

COURSE SURVEY FOR FINANCIAL MANAGEMENT1020 (© 2001)

er you have completed the assignments in this course, please fill out this questionnaire and mail it to the lress given on the last page. This course is designed in a new distance learning format, so we are interested our responses. Your constructive comments will be greatly appreciated, as future course revisions can then orporate any necessary improvements.

ne ______________________ Age ❑ under 19 ❑ 19 to 40 ❑ over 40

dress ______________________ File No. ______________________

______________________ Date ______________________

____

sign

The Student Module Booklet contains a variety of self-assessed activities. Did you find it helpful to be able to check your work and have immediate feedback?

❑ Yes ❑ No If yes, explain.

____

____

____

Were the questions and directions easy to understand?

❑ Yes ❑ No If no, explain.

____

____

____

3. Each section contains Follow-up Activities. Which type of Follow-up Activity did you choose?

❑ mainly Extra Help
❑ mainly Enrichment
❑ a variety
❑ none

Did you find these activities beneficial?

❑ Yes ❑ No If no, explain.

____

____

4. Did you understand what was expected in the Assignment Booklets?

❑ Yes ❑ No If no, explain.

____

____

5. The course materials were designed to be completed by students working independently at a distance. Were you always aware of what you had to do?

❑ Yes ❑ No If no, provide details.

____

____

6. This distance learning course may include an assortment of drawings, photographs, and charts.

a. Did you find the visuals in this course helpful?

❑ Yes ❑ No Comment on the lines below.

____

____

b. Did you find the variety of visuals in this course motivating?

❑ Yes ❑ No Comment on the lines below.

____

____

Suggestions for audiocassette, videocassette, and computer activities may have been included in the course. Did you complete these media activities?

❑ Yes ❑ No Comment on the lines below.

____

____

y students enrolled in a junior high course need to complete the following question.

The Student Module Booklet may have directed you to work with your teacher. How well did you work as a team?

Student's comments: ____

____

____

____

Teacher's comments: ____

____

____

____

urse Content

Was enough detailed information provided to help you learn the expected skills and objectives?

❑ Yes ❑ No Comment on the lines below.

____

____

Did you find the workload reasonable?

❑ Yes ❑ No If no, explain.

____

____

3. Did you have any difficulty with the reading level?

❑ Yes ❑ No Please comment.

4. How would you assess your general reading level?

❑ poor reader ❑ average reader ❑ good reader

5. Was the material presented clearly and with sufficient depth?

❑ Yes ❑ No If no, explain.

General

1. What did you like least about the course?

2. What did you like most about the course?

Additional Comments

ly students enrolled with the Alberta Distance Learning Centre need to complete the remaining estions.

Did you contact the Alberta Distance Learning Centre for help or information while doing your course?

❑ Yes ❑ No If yes, approximately how many times? ______

Did you find the staff helpful?

❑ Yes ❑ No If no, explain.

Were you able to fax or e-mail any of your assignment response pages?

❑ Yes ❑ No If yes, comment on the value of being able to do this.

If you mailed your assignment response pages, how long did it take for their return?

Was the feedback you received from your correspondence or distance learning teacher helpful?

❑ Yes ❑ No Please comment.

anks for taking the time to complete this questionnaire. Your edback is important to us. Please return this questionnaire to address on the right.

you are enrolled at the Alberta Distance Learning Centre and ll be mailing your Assignment Booklets to ADLC, you may urn this questionnaire with Assignment Booklet B.

Learning Technologies Branch
Box 4000
Barrhead, Alberta
T7N 1P4

APPENDIX

Glossary

Suggested Answers

Generally Accepted Accounting Principles

Glossary

account: a specially ruled page used to record financial changes

There is one account for each different item affecting the financial position. All of the accounts together form the ledger.

accounts payable: amounts owed to creditors by the business; debts, liabilities

accounts receivable: amounts owed to the business by customers; assets

assets: anything of value owned by a business

auditor: a professional accountant who deals with analysis and evaluation of books and records

balance sheet: a financial statement that shows the value of the assets, liabilities, and owner's equity of a business at a specific time

cash sales slip: a source document indicating the amount of cash sales that business has made

cash short and over: an account used to record small discrepancies in cash

The account can be an expense (cash is short) or a revenue (cash is over).

chart of accounts: a list of the accounts of a business and their numbers, arranged in numerical order according to the order they appear in the ledger

combined entry: a journal entry that includes more than one transaction where one account and a date is common to all transactions included

compound entry: a journal entry involving more than two accounts

credit memo: a memorandum indicating that the company's bank account has been credited (increased) as a result of additions to the account

debit memo: a memorandum indicating that the company's bank account has been debited (decreased) as a result of deduction[s] from the account

double-entry accounting: Every transaction i[s] recorded as a debit in one or more accounts and as a credit in one or more accounts. Under this system, the total of the debit entries equals the total of the credit entries.

drawings account: an account used for recording the withdrawal of any asset from the business by the owner

equity: financial claims on the assets of a business

Creditors have a claim on the assets (creditor's equity); owners have claims on the assets (owner's equity).

expense: a cost incurred by a business for the purpose of generating revenue

financial position: the status of a business, a[s] represented by the assets, liabilities, and owner's equity

financial statements: accounting documents prepared to organize the financial picture o[f] a company

fiscal period: the period of time over which earnings are measured

Fundamental Accounting Equation: Assets = Liabilities + Owner's Equity

general journal: a two-column accounting form used for sorting out transactions in chronological order

neral ledger: a book or file containing all the accounts of the business other than those in the subsidiary ledgers

The general ledger accounts represent the complete financial position of the business.

come statement: a financial statement that summarizes the revenue and expenses for a period of time, together with either the net income or the net loss

ırnalizing: the process of dating data from source documents and entering the data in chronological order in a journal

bilities: amounts owed to someone outside of the business

uidity: the ease with which assets can be converted to cash

The most liquid asset is cash.

t income: the figure resulting when revenues are greater than expenses

t loss: the figure resulting when expenses are greater than revenues

ening entry: the first entry made in a journal of a new business

rmanent accounts: balance sheet accounts

tty cash fund: a small amount of cash kept on hand to pay for minor expenditures

tty cash voucher: a form showing the amount paid, the reason for the payment, signature of the person receiving the cash, and the date of the minor expenditure

A voucher is placed in the petty cash box each time cash is taken out of the box.

sting: the process of transferring information from the journal to the ledger

profit: the excess of revenue over expenditures

revenue: an increase in the owner's equity brought about by the normal operations of a business

source document: any piece of paper that provides details about a financial change in business (i.e., invoices, cheque stubs, cash register tapes)

The source document is used for all journal entries.

sales invoice: a source document indicating a sale of an item on account (not for cash) that also contains the terms of the sale

slide error: an error in accounting when the decimal point is incorrectly placed to the left or to the right

For example, the accountant records $4.90 when the true figure is $49.00.

statement of change in owner's equity: a statement that indicates how the financial standing of the owner has changed over the period being reviewed

temporary accounts: revenue, expense, income summary, and drawings accounts

transaction: a financial event that changes at least two accounts in a business

transposition error: an error in accounting when numbers are reversed

For example, the accountant records $749 when the true figure is $794.

trial balance: a list of all the debits and credits in the general ledger

Its purpose is to prove that total debits equal total credits.

zero proof: the zero balance obtained when all of the credit balances are deducted from all of the debit balances

Suggested Answers

Section 1: Activity 1

1. A   2. A   3. A

4. a. $1200
   b. $11 200 (10 000 + 1 200 = 11 200)

Section 1: Activity 2

1. Catherine would be violating the business entity concept. She would be mixing her personal expenses an her business expenses.

2. No, the bank was led to believe that the business was a going concern. Prior to loaning out the money, th bank should have asked for updated financial statements, which may have revealed the trouble that the company was experiencing.

3. This is a difficult problem because historically the software has sold at $149 and the company would be well within their rights to list the software at that price. However, the Principle of Conservatism would warrant pricing the inventory at the lower rate, due to the knowledge of the competition.

4. Hans must be objective and realize that his hours will continue to decrease if he continues to charge the higher rate. Perhaps he should compromise and reduce his rate slightly to reflect the changes or reduce the number of hours he anticipates billing. Either way, his revenue should reflect a decrease.

5. Mira should be comparing the financial picture of her company for an equal period of time—every four months. However, it would be extremely unwise of her to operate her business for four months without any financial information. She should have received monthly revenue and expense statements so that sh could compare month to month. Perhaps a particular month is busier than others, and this is valuable information.

6. According to the Matching Principle, the expenses should be "matched" with the income to reflect a fair picture of the transaction. Jim could have carried forward the expenses from April and then matched th against the revenue to provide a better picture.

7. Carolyn should get an objective appraisal of the value of the furnishings, as they are now part of her business assets. Normally, the Cost Principle is easy to follow, as all items are purchased and the invoic or cheque is used as the costing source document.

8. No, the Thompsons are fully aware that they are planning to make significant changes in their personal lives that will have an effect on the business. If they have kept this information to themselves, their accountant does not have to make false statements in the auditor's statement. However, if they have informed their accountant, then it is that accountant's obligation to report this information to the bank.

ection 1: Follow-up Activities

xtra Help

Assets		Liabilities		Owner's Equity	
Cash	*2 600.00*	*Bank Loan*	*31 000.00*		
Building	*40 000.00*	*Equip. Supply Co.*	*12 000.00*		
Delivery Truck	*7 000.00*				
Equipment	*28 000.00*				
Total Assets	*$77 600.00*	–Total Liabilities	*$43 000.00*	=Owner's Equity	*$34 600.00*

a. No, the manager is not correct. Each item listed in the balance sheet should be recorded at its historic value (the purchase price of the equipment).

b. Though the Principle of Conservatism requires that the affairs of a business not be overstated, it also states that the affairs of the business should not be understated.

nrichment

Reggie Chernicka does have a financial problem. The business is in a poor position to pay its debts. As shown by the balance sheet, the business has cash of $6000 and accounts receivable of $14 000, for a total of $20 000. This is considerably less than the accounts payable figure of $35 000. In addition, there is probably a payment to be made on the mortgage. Reggie is "cash poor," and if his creditors pressed him, he would be in a difficult position to pay off his debts.

a. No, the figure should not be eliminated. It is the true value of what the company paid for the equipment, regardless of the changes in the market.

b. The Going-Concern Concept and the Principle of Conservatism affect this situation. The assets of the company do not need to be adjusted until the company goes out of business.

ction 2: Activity 1

The GAAP of Conservatism is being adhered to by costing the estimates at a low and reasonable amount.

Answers will vary. The personal balance sheet should include clothes and personal possessions. You may not have incurred any liabilities yet, in which case your assets would equal your owner's equity.

ction 2: Activity 2

The date is important on all financial statements because a company that is doing a lot of business can have a different financial picture from month to month. One month, the company can be doing very poorly. The next month, the company can be very successful.

If the liabilities of a company are greater than the assets, the owner's equity section of the balance sheet will be expressed in the negative. At this point, a company might wish to consider filing for bankruptcy or getting out of business. To express a negative amount, the balance is either enclosed in brackets ( ) or shown in red ink.

3. a. Assets

- cash
- money due from patients (accounts receivable)
- money due from Alberta Health Care (accounts receivable)
- supplies
- equipment

Liabilities

- money owing to Pro-Speed Suppliers (accounts payable)
- money owing to Dave's Janitorial (accounts receivable)
- bank loan

Owner's Equity

- Dr. Zimmerman, Capital

b. Total Assets – Total Liabilities = Owner's Equity
171 000.00 – 20 000.00 = 151 000.00

c. Your balance sheet for Dr. Zimmerman should look like the following.

Dr. Zimmerman			
BALANCE SHEET			
January 31, 20xx			
Assets		*Liabilities*	
Cash	9 000 00	*Accounts Payable:*	
Accounts Receivable:		*Pro-Speed Suppliers*	11 000 00
Patients	6 000 00	*Dave's Janitorial*	2 000 00
Alberta Health Care	14 000 00	*Bank Loan*	7 000 00
Supplies	2 000 00	*Total Liabilities*	20 000 00
Equipment	140 000 00		
		Owner's Equity	
		Dr. Zimmerman, Capital	151 000 00
Total Assets	171 000 00	*Total Liabilities and Owner's Equity*	171 000 00

CTS

a. The missing amounts and words for question a. and b. are shown in colour.

Koch Moving and Storage			
BALANCE SHEET			
August 31, 20xx			
Assets		*Liabilities*	
Cash	1 896 50	*Bank Loan*	60 000 00
Accounts Receivable:		*Mortgage Payable*	100 000 00
J. Radick 2 500.00		*Total Liabilities*	160 000 00
City Bank 11 750.00			
M. Unger 1 565.00	15 815 00		
Office Equipment	3 175 00		
Truck	47 500 00	*Owner's Equity*	
Warehouse	137 500 00	*Milas Popov, Capital*	45 886 50
Total Assets	205 886 50	*Total Liabilities and Owner's Equity*	205 886 50

b. The missing amounts and words are shown in colour.

CHOO T.V.			
BALANCE SHEET			
April 30, 20xx			
Assets		*Liabilities*	
Cash	2 106 31	*Bank Loan*	30 000 00
Accounts Receivable:		*Accounts Payable:*	
Gold's Furniture 500.00		*Rondar Interiors* 2 500.00	
B. J. Johnson 300.00		*Sound Centre* 12 000.00	
E. Lenko 400.00	1 200 00	*RSC* 10 000.00	24 500 00
Studio Equipment	45 000 00	*Total Liabilities*	54 500 00
Mobile Equipment	27 000 00		
Office Furnishings	3 575 00	*Owner's Equity*	
		Duke Farrell, Capital	24 381 31
Total Assets	78 881 31	*Total Liabilities and Owner's Equity*	78 881 31

a. Assets = Liabilities + Owner's Equity
53 300.00 = 12 000.00 + 41 300.00

b. Assets = Liabilities + Owner's Equity
37 670.00 = 19 500.00 + 18 170.00

c. Assets = Liabilities + Owner's Equity
46 960.00 = 18 250.00 + 28 710.00

Yes, it is possible to have assets but not enough cash to pay your bills. If the majority of your assets are land, equipment, and buildings, and you have limited cash assets, then you might experience trouble paying your bank loan, mortgage, or making payments to your creditors (accounts payable). To correct this, you would be advised to stop purchasing fixed assets such as equipment, avoid purchasing items on credit (accounts payable), and attempt to increase the cash in the company.

Section 2: Activity 3

1. **Part A**

Frank Trotta			
BALANCE SHEET			
January 1, 20xx			
Assets		*Liabilities*	
Cash	27 445 00	*Bank Loan*	8 800 00
Accounts Receivable	3 000 00	*Accounts Payable*	1 467 00
Supplies	730 00	*Mortgage Payable*	6 000 00
Equipment	420 00	*Total Liabilities*	16 267 00
		Owner's Equity	
		Frank Trotta, Capital	15 328 00
Total Assets	31 595 00	*Total Liabilities and Owner's Equity*	31 595 00

Assets = Liabilities + Owner's Equity
31 595.00 = 16 267.00 + 15 328.00

Part B

	A	B	C	E	F	G
1			**Frank Trotta**			
2			**BALANCE SHEET**			
3			**January 1, 20xx**			
4						
5		**Assets**			**Liabilities**	
6	Cash		27 445.00	Bank Loan		8 800.00
7	Accounts Receivable		3 000.00	Accounts Payable		1 467.00
8	Supplies		730.00	Mortgage Payable		6 000.00
9	Equipment		420.00	Total Liabilities		16 267.00
10						
11					**Owner's Equity**	
12				Frank Trotta, Capital		15 328.00
13	**Total Assets**		31 595.00	**Total Liabilities and Owner's Equity**		31 595.00
14						
15						
16						

Assets = Liabilities + Owner's Equity
31 595.00 = 16 267.00 + 15 328.00

Part A

B. R. Burnett Ltd.					
BALANCE SHEET					
January 1, 20xx					
Assets			*Liabilities*		
Cash	*2900*	*00*	*Bank Loan*	*11000*	*00*
Accounts Receivable	*7100*	*00*	*Accounts Payable*	*6900*	*00*
Office Supplies	*1500*	*00*	*Total Liabilities*	*17900*	*00*
Office Equipment	*12000*	*00*			
			Owner's Equity		
			B. R. Burnett, Capital	*5600*	*00*
Total Assets	*23500*	*00*	*Total Liabilities and Owner's Equity*	*23500*	*00*

Assets = Liabilities + Owner's Equity
23 500.00 = 17 900.00 + 5 600.00

Part B

	A	B	C	E	F	G
1			**B. R. Burnett Ltd.**			
2			**BALANCE SHEET**			
3			**January 1, 20xx**			
4						
5		**Assets**			**Liabilities**	
6	Cash		2 900.00	Bank Loan		11 000.00
7	Accounts Receivable		7 100.47	Accounts Payable		6 900.00
8	Office Supplies		1 500.00	Total Liabilities		17 900.00
9	Equipment		12 000.00			
10					**Owner's Equity**	
11				B. R. Burnett, Capital		5 600.00
12	**Total Assets**		23 500.00	**Total Liabilities and Owner's Equity**		23 500.00
13						
14						
15						
16						

Assets = Liabilities + Owner's Equity
23 500.00 = 17 900.00 + 5 600.00

3. **Part A**

Drapes 'n' Shutters			
BALANCE SHEET			
January 1, 20xx			
Assets		*Liabilities*	
Cash	4 332 75	*Bank Loan*	14 954 00
Accounts Receivable	19 720 47	*Accounts Payable*	11 949 00
Office Supplies	370 00	*Mortgage Payable*	14 000 00
Equipment	34 560 00	*Total Liabilities*	40 903 00
		Owner's Equity	
		Carol Morgan, Capital	18 080 22
Total Assets	58 983 22	*Total Liabilities and Owner's Equity*	58 983 22

Assets = Liabilities + Owner's Equity
58 983.22 = 40 903.00 + 18 080.22

Part B

	A	B	C	E	F	G
1			**Drapes 'n' Shutters**			
2			**BALANCE SHEET**			
3			**January 1, 20xx**			
4						
5		**Assets**			**Liabilities**	
6	Cash		4 332.75	Bank Loan		14 954.00
7	Accounts Receivable		19 720.47	Accounts Payable		11 949.00
8	Office Supplies		370.00	Mortgage Payable		14 000.00
9	Equipment		34 560.00	Total Liabilities		40 903.00
10						
11					**Owner's Equity**	
12				Carol Morgan, Capital		18 080.22
13	**Total Assets**		58 983 22	**Total Liabilities and Owner's Equity**		58 983.22
14						
15						
16						

Assets = Liabilities + Owner's Equity
58 983.22 = 40 903.00 + 18 080.22

ection 2: Activity 4

a. Cash from $1900 to $1990
Accounts Receivable from $1200 to $1110

b. Cash from $1990 to $1490
Accounts Payable from $1500 to $1000

c. Equipment from $13 900 to $14 100
Accounts Payable from $1000 to $1200

d.

Friendly Repairs					
BALANCE SHEET					
October 5, 20xx					
Assets			*Liabilities*		
Cash	*1490*	*00*	*Accounts Payable*	*1200*	*00*
Accounts Receivable	*1110*	*00*	*Bank Loan*	*2000*	*00*
Equipment	*14100*	*00*	*Total Liabilities*	*3200*	*00*
			Owner's Equity		
			Carl Hayward, Capital	*13500*	*00*
Total Assets	*16700*	*00*	*Total Liabilities and Owner's Equity*	*16700*	*00*

1.

Cash	
2000.00	

S. Prather, Capital	
	2000.00

2.

Cash	
50.00	

S. Prather, Capital	
	50.00

3.

Cash	
50.00	

Accounts Receivable, J. Sterling	
	50.00

4.

Golf Equipment	
450.00	

S. Prather, Capital	
	450.00

5.

Cash	
	300.00

Salary Expense	
300.00	

6.

Cash	
	2500.00

Office Machines	
2500.00	

7.

Maintenance Equipment	
900.00	

Accounts Payable, Melcor Equipment Co.	
	900.00

8.

Cash	
	100.00

Accounts Payable, Southern Supply Co.	
100.00	

9.

Cash	
	300.00

S. Prather, Drawings	
300.00	

10.

Golf Equipment	
1200.00	

Accounts Payable, Melcor Equipment Co.	
	1200.00

ection 2: Follow-up Activities

xtra Help

Billy's Burgers										
BALANCE SHEET										
November 30, 20xx										
Assets						*Liabilities*				
Cash		3	0	0	00	*Bank Loan*	8	0	0	0	00
Accounts Receivable:						*Accounts Payable, Happy Foods Ltd.*	1	3	0	0	00
Wells			4	0	00	*Mortgage Payable*	62	0	0	0	00
Wilkinson		1	2	0	00	*Total Liabilities*	71	3	0	0	00
Land	30	0	0	0	00						
Building	80	0	0	0	00						
Equipment	7	0	0	0	00	*Owner's Equity*					
						Billy Barton, Capital	46	1	6	0	00
Total Assets	117	4	6	0	00	*Total Liabilities and Owner's Equity*	117	4	6	0	00

Sleepy Chalet											
BALANCE SHEET											
June 30, 20xx											
Assets						*Liabilities*					
Cash	9	7	5	0	00	*Bank Loan*	30	0	0	0	00
Accounts Receivable:						*Accounts Payable:*					
J. McArthur	8	2	0	0	00	*General Merchants Co.*	5	5	0	0	00
P. Luciano	11	2	5	0	00	*Household Finance Co.*	12	5	0	0	00
Land	20	0	0	0	00	*Total Liabilities*	48	0	0	0	00
Building	109	5	0	0	00						
Snowmobiles	23	2	0	0	00	*Owner's Equity*					
Equipment	52	0	0	0	00	*Charles Finlay, Capital*	185	9	0	0	00
Total Assets	233	9	0	0	00	*Total Liabilities and Owner's Equity*	233	9	0	0	00

Enrichment

1.

Dial-A-Wash					
BALANCE SHEET					
March 31, 20xx					
Assets			*Liabilities*		
Cash	620	20	*Bank Loan*	275	00
Accounts Receivable			*Accounts Payable:*		
B. Croot	200	00	*Washer Appliances*	1000	00
R. Schmidt	75	00	*Ken's Repair Shop*	73	70
Furniture	173	50	*Total Liabilities*	1348	70
Drying Equipment	1080	00			
Washing Equipment	2240	00	*Owner's Equity*		
			Gerry Gibson, Capital	3040	00
Total Assets	4388	70	*Total Liabilities and Owner's Equity*	4388	70

2. Answer will vary. You should have indicated some of the following questions:

- What condition is the equipment in? Is it really worth $67 600?
- What condition are the buildings in? What are they really worth?
- Has the land value been verified by a real estate company?
- How has the figure of $200 000 representing sod deposits been determined?
- Is the owner willing to provide an audited statement, one prepared by a professional accountant?
- What part of the accounts receivable are doubtful? How old are the outstanding accounts?
- Are debts of the business being paid on time?
- When is the bank loan due? What is the interest rate?
- When is the mortgage due? What is the interest rate?
- What was the profit for the last year?
- Have profits been rising or falling?

Section 3: Activity 1

1.

Clear-View Window Cleaners
Chart of Accounts

100 Assets

101 Cash
110 Accounts Receivable, D. Thurston
111 Accounts Receivable, Triad Cafe
112 Accounts Receivable, Harry's Bar

130 Equipment
140 Truck

200 Liabilities
- 201 Bank Loan
- 210 Accounts Payable, A-1 Rentals
- 211 Accounts Payable, Super Supplies

300 Owner's Equity
- 301 R. D. Allan, Capital
- 302 R. D. Allan, Drawings

2. a. Editing Equipment could follow Office Equipment as 140, or Editing Equipment could be placed between Computer Equipment and Office Equipment as 125.

   b. D. Taylor, Drawings, would follow the Capital account as 302.

Section 3: Activity 2

1. When revenue and expense accounts are included in the ledger, it is much easier for the owners to determine where revenue is earned and where spending is occurring. This will help to provide the owners with information as to whether they are charging enough for their services.

2. The company can determine how much money is being earned by each service offered. Perhaps one service is not as profitable as the other.

3.

	Total Revenue	–	Total Expenses	=	Net Income or Net Loss	+	Beginning Capital	=	New Capital
a. Fiona's Flowers	4800.00		3250.00		+ 1550.00		13 500.00		15 050.00
b. The Nail Shop	$\boxed{1705.00}$		1205.00		+ 500.00		10 000.00		$\boxed{10\ 500.00}$
c. Carol's Hair	3300.00		$\boxed{2300.00}$		+ 1000.00		$\boxed{12\ 300.00}$		13 300.00
d. Andy's Repair	4600.00		2100.00		$\boxed{+ 2500.00}$		29 500.00		$\boxed{32\ 000.00}$
e. Phyllis' Crystal	$\boxed{135.00}$		435.00		– 300.00		695.00		$\boxed{395.00}$
f. Shirley's Ceramics	9500.00		10 800.00		$\boxed{- 1300.00}$		$\boxed{15\ 900.00}$		14 600.00

4. a.

101 Cash

bal 1550.00	50.00 (1)
(2) 510.00	22.00 (3)
(5) 1000.00	300.00 (4)
(7) 420.00	5.00 (6)
(12) 590.00	9.00 (8)
(17) 395.00	500.00 (9)
	190.00 (10)
	75.00 (11)
	93.00 (13)
	100.00 (14)
	35.00 (15)
	400.00 (16)
bal 2686.00	

110 Delivery Equipment

bal 7540.00	

120 Office Equipment

bal 1520.00	
(4) 300.00	
(10) 190.00	
bal 2010.00	

210 Accounts Payable, XL Motors

(9) 500.00	3780.00 bal
	3280.00 bal

301 H. Orton, Capital

	6830.00 bal
	1000.00 (5)
	7830.00 bal

302 H. Orton, Drawings

(14) 100.00	

401 Delivery Revenue

	510.00 (2)
	420.00 (7)
	590.00 (12)
	395.00 (17)
	1915.00 bal

501 Advertising Expense

(15) 35.00	

502 Delivery Truck Expense

(3) 22.00	
(6) 5.00	
(13) 93.00	
bal 120.00	

503 Miscellaneous Expense

(8) 9.00	
(11) 75.00	
(16) 400.00	
bal 484.00	

504 Telephone Expense

(1) 50.00	

Balances: Total Debits = $13 025.00
Total Credits = $13 025.00

b. The transactions are shown in the answer to 4.a.

c. Totalling is shown in the answer to 4.a.

Section 3: Activity 3

1. a.

Waterfall Hotel
Chart of Accounts

101	Cash	18 000.00
102	Accounts Receivable, J. Unser	200.00
103	Accounts Receivable, D. Woloshyn	400.00
104	Furniture and Fixtures	13 000.00
105	Office Equipment	4 000.00
106	Vending Machines	7 000.00
107	Coffee Shop Equipment	9 000.00
201	Accounts Payable, Alta. Wholesale Ltd.	1 200.00
202	Accounts Payable, Motel Supply Co.	800.00
301	Rita Maxwell, Capital	49 600.00
302	Rita Maxwell, Drawings	
401	Room Sales Revenue	
402	Coffee Shop Revenue	
403	Vending Machine Revenue	
501	Cleaning Expense	
502	Miscellaneous Expense	
503	Rent Expense	
504	Salaries Expense	
505	Utilities Expense	

b.

Waterfall Hotel
BALANCE SHEET
January 1, 20xx

Assets		*Liabilities*	
Cash	18 000 00	*Accounts Payable:*	
Accounts Receivable:		*Alta. Wholesale Ltd.*	1 200 00
J. Unser	200 00	*Motel Supply Co.*	800 00
D. Woloshyn	400 00	*Total Liabilities*	2 000 00
Furniture and Fixtures	13 000 00		
Office Equipment	4 000 00		
Vending Machines	7 000 00	*Owner's Equity*	
Coffee Shop Equipment	9 000 00	*Rita Maxwell, Capital*	49 600 00
Total Assets	51 600 00	*Total Liabilities and Owner's Equity*	51 600 00

c. See the following T-accounts.

d.

101 Cash

bal	18 000.00	1500.00	(1)
(2)	1000.00	200.00	(6)
(4)	2500.00	2000.00	(8)
(5)	1200.00	1200.00	(10)
(9)	500.00	700.00	(12)
(11)	150.00	1800.00	(13)
(14)	2500.00	2500.00	(20)
(16)	200.00	1500.00	(21)
(17)	8000.00		
(18)	2500.00		
(19)	1100.00		
bal	26 250.00		

102 Accounts Receivable, D. Woloshyn

bal	400.00	150.00	(11)
(3)	120.00		
bal	370.00		

103 Accounts Receivable, J. Unser

bal	200.00		
(14)	1100.00		
bal	1300.00		

104 Furniture and Fixtures

bal	13 000.00		

105 Office Equipment

bal	4000.00	500.00	(9)
(7)	3400.00		
bal	6900.00		

106 Vending Machines

bal	7000.00		

107 Coffee Shop Equipment

bal	9000.00	200.00	(16)
(15)	2000.00		
(17)	4000.00		
bal	14 800.00		

201 Accounts Payable, Motel Supply Co.

(20)	2500.00	800.00	bal
		3400.00	(7)
		2000.00	(15)
		3700.00	bal

202 Accounts Payable, Alta. Wholesale Ltd.

(10)	1200.00	1200.00	bal
		0	bal

301 Rita Maxwell, Capital

		49 600.00	bal
		12 000.00	(17)
		61 600.00	bal

302 Rita Maxwell, Drawings

(8)	2000.00		
bal	2000.00		

401 Room Sales Revenue

		1000.00	(2)
		120.00	(3)
		3600.00	(14)
		2500.00	(18)
		7220.00	bal

402 Coffee Shop Revenue

		2500.00	(4)
		2500.00	bal

403 Vending Machines Revenue

	1200.00 (5)
	1100.00 (19)
	2300.00 bal

501 Cleaning Expense

(21) 1500.00	

502 Miscellaneous Expense

(6) 200.00	

503 Rent Expense

(1) 1500.00	

504 Salaries Expense

(13) 1800.00	

505 Utilities Expense

(12) 700.00	

e.

Debits	Credits
26 250.00	3700.00
370.00	61 600.00
13 000.00	7220.00
6900.00	2500.00
7000.00	2300.00
14 800.00	
2000.00	
700.00	
1800.00	
1500.00	
1500.00	
200.00	
77 320.00	77 320.00

Section 3: Follow-up Activities

Extra Help

1.

DEBIT OR CREDIT

Account	Debit Balance	Credit Balance
Supplies	X	
Advertising Expense	X	
A. Anderson, Drawings	X	
G. Wright, creditor		X
Rent Expense	X	
Fees Earned		X
Bank Loan		X
A. Bryan, Capital		X
Mortgage Payable		X
Automobile	X	

2.

Cash

bal	1056.00	95.00	(3)
(1)	516.00	15 000.00	(5)
(4)	5000.00	520.00	(6)
(8)	800.00	40.00	(7)
(10)	2000.00	500.00	(9)
(13)	5100.00	1000.00	(11)

Office Supplies

bal	1115.00		
(3)	95.00		

Land

bal	18 042.00	5000.00	(4)

Accounts Receivable, D. Murray

bal	1351.00	800.00	(8)

Accounts Receivable, V. Morris

(2)	4150.00	2000.00	(10)

Accounts Receivable, A. Niemi

bal	2516.00	516.00	(1)

Furniture and Equipment

bal	11 916.00		
(12)	600.00		

Automobile

bal	27 965.00		
(7)	40.00		

Accounts Payable, Pioneer Furniture	
	600.00 (12)

Accounts Payable, Tuck Corp.	
(6) 520.00	*1520.00 bal*
(11) 1000.00	

Cathy Ricardo, Capital	
	43 441.00 bal
	4150.00 (2)
	5100.00 (13)

Cathy Ricardo, Drawings	
(9) 500.00	

Bank Loan	
(3) 15 000.00	*19 000.00 bal*

Enrichment

1. a. The property should not be listed at \$75 000, but at \$30 000. There are three GAAPs that strongly support this opinion. First, the Cost Principle: all purchases must be recorded at their cost price. Sally Yu has a document stating that the property cost her \$30 000; it is this information that she should use, not her personal feelings. Secondly, the Principle of Conservatism: by including the building lot at \$75 000 instead of \$30 000, she is grossly overstating the value of the land. Thirdly, the Principle of Objectivity: Sally has no way of knowing what the property will be worth in the future.

   b. It should be explained to Sally that she must show the land at \$30 000. In explaining that, introduce her to the ideas involved in the two GAAPs.

   c. No, the \$75 000 would not be lent to Sally Yu. A co-signature or some collateral would be required.

2. a. The accounts should be corrected as follows:

Debits		Credits	
• P. Garside, Capital	150	Revenue	150
• P. Garside, Drawings	500	Wages	500
• Car Expense	400	Automobiles	400
• Equipment	110	Car Expense	110

   b. The corrected net income figure will be \$4700.

Section 4: Activity 1

1. Pitch and Putt would prefer the cash transaction. Accounts receivable are promises to pay, but some customers default in their payments. Less expense is involved in a cash transaction as follow-up bills are not required.

2. The general journal entry for Sofia's Draperies would appear as follows:

	GENERAL JOURNAL					Page 1	
	Date		Account Title	POST REF.	Debit	Credit	
1	20xx June	6	*Cash*		*100 00*		1
2			*Accounts Receivable, C. McArthur*		*310 00*		2
3			*Installation Fees Earned*			*410 00*	3
4			*Rec'd for cleaning and installing draperies*				4

This is an example of a compound entry. Three accounts are affected: an asset account, an account payable, and a revenue account. Two of these accounts must be debited and be listed in the order in which they appear in the general ledger.

3. a. The Generally Accepted Accounting Principle of Objectivity states that accounting will be recorded on the basis of objective evidence. Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction. If Sara destroys her source documents, then there is no way to verify the transaction.

   b. The Generally Accepted Accounting Principle of cost states that the accounting for purchases must be at their cost price. This is the figure that appears on the source document for the transaction in almost all cases.

   c. Canada Customs and Revenue Agency needs objective evidence of sales and purchases. If Sara's books were audited, she might have to verify them by producing sales and purchases records.

   d. If Sara's computer system were to fail, she would need to reconstruct her records. The source documents would be required at that time.

4. The debits total \$4800 and the credits total \$4800. It is important that the debits equal the credits because when these amounts are posted to the general ledger, the ledger will not balance unless the correct numbers are posted.

5. The opening entry of Great Slave Charters would be recorded in a general journal as follows.

	GENERAL JOURNAL					Page 1	
	Date		Account Title	POST REF.	Debit	Credit	
1	20xx June	1	*Cash*		*12 250 00*		1
2			*Term Deposit*		*10 000 00*		2
3			*Land and Building*		*140 000 00*		3
4			*Houseboats*		*220 000 00*		4
5			*Office Equipment*		*12 000 00*		5
6			*Mortgage to Bank*			*110 000 00*	6
7			*R. Richards, Capital*			*284 250 00*	7
8			*To open the books of Great Slave Charters*				8

Section 4: Activity 2

1. a. This chart of accounts does not include the temporary accounts—revenue and expense accounts—as the business is not yet up and running. These will be added once the business begins operations.

Fine Fashions
Chart of Accounts

100 Assets
- 101 Cash
- 102 Accounts Receivable, J. Jones
- 103 Supplies
- 104 Store Equipment
- 105 Office Equipment

200 Liabilities
- 201 Accounts Payable, F. Fisher
- 202 Accounts Payable, L. Ritchie Company

300 Owner's Equity
- 301 C. Bale, Capital
- 302 C. Bale, Drawings

b. The balance sheet for Fine Fashions should appear as follows:

Fine Fashions
BALANCE SHEET
October 1, 20xx

Assets		*Liabilities*	
Cash	600 00	*Accounts Payable:*	
Accounts Receivable:		*F. Fisher*	300 00
J. Jones	200 00	*L. Ritchie Company*	500 00
Supplies	200 00	*Total Liabilities*	800 00
Store Equipment	3000 00		
Office Equipment	2000 00	*Owner's Equity*	
		C. Bale, Capital	5200 00
Total Assets	6000 00	*Total Liabilities and Owner's Equity*	6000 00

c. The ledger cards contain answers to questions 1.c. and 1.e.

ACCOUNT *Cash* ACCOUNT NO. *101*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1	600 00		DR	600 00

ACCOUNT *Accounts Receivable, J. Jones* ACCOUNT NO. *102*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1	200 00		DR	200 00

ACCOUNT *Supplies* ACCOUNT NO. *103*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1	200 00		DR	200 00

ACCOUNT *Store Equipment* ACCOUNT NO. *104*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1	3000 00		DR	3000 00

ACCOUNT *Office Equipment* ACCOUNT NO. *105*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1	2 000 00		DR	2 000 00

ACCOUNT *Accounts Payable, F. Fisher* ACCOUNT NO. *201*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1		300 00	CR	300 00

ACCOUNT *Accounts Payable, L. Ritchie Company* ACCOUNT NO. *202*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1		500 00	CR	500 00

ACCOUNT *C. Bale, Capital* ACCOUNT NO. *301*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx Oct.	1		G1		5 200 00	CR	5 200 00

ACCOUNT *C. Bale, Drawings* ACCOUNT NO. *302*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE

d.

GENERAL JOURNAL — Page 1

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx Oct.	1	*Cash*	*101*	*600 00*		1
2			*Accounts Receivable, J. Jones*	*102*	*200 00*		2
3			*Supplies*	*103*	*200 00*		3
4			*Store Equipment*	*104*	*3000 00*		4
5			*Office Equipment*	*105*	*2000 00*		5
6			*Accounts Payable, F. Fisher*	*201*		*300 00*	6
7			*Accounts Payable, L. Ritchie Company*	*202*		*500 00*	7
8			*C. Bale, Capital*	*301*		*5200 00*	8
9			*To record opening entry of Fine Fashions*				9
10							10
11							11

e. See the answer to question 1.c.

2. a.

	Assets					=	Liabilities		+	Owner's Equity
	Cash	Accts. Rec., J. Brown	Kitchen Equipment	Dining Room Equipment	Office Equipment		Accts. Pay., P. Easton Co.	Accts. Pay., Wallace & Carey		I. St. Pierre, Capital
Balance	*1 000.00*	*200.00*	*2 000.00*	*800.00*	*500.00*	=	*1 000.00*	*500.00*		*3 000.00*
Transaction 1	*–100.00*					=	*–100.00*			
New Balance	*900.00*	*200.00*	*2 000.00*	*800.00*	*500.00*	=	*900.00*	*500.00*		*3 000.00*
Transaction 2	*+300.00*					=				*+300.00*
New Balance	*1 200.00*	*200.00*	*2 000.00*	*800.00*	*500.00*	=	*900.00*	*500.00*		*3 300.00*
Transaction 3	*–200.00*			*+200.00*		=				
New Balance	*1 000.00*	*200.00*	*2 000.00*	*1 000.00*	*500.00*	=	*900.00*	*500.00*		*3 300.00*
Transaction 4			*+100.00*			=	*+100.00*			
New Balance	*1 000.00*	*200.00*	*2 100.00*	*1 000.00*	*500.00*	=	*1 000.00*	*500.00*		*3 300.00*
Transaction 5	*+100.00*	*–100.00*				=				
New Balance	*1 100.00*	*100.00*	*2 100.00*	*1 000.00*	*500.00*	=	*1 000.00*	*500.00*		*3 300.00*
Transaction 6	*–200.00*					=				*–200.00*
New Balance	*900.00*	*100.00*	*2 100.00*	*1 000.00*	*500.00*	=	*1 000.00*	*500.00*		*3 100.00*
Transaction 7				*+100.00*		=				*+100.00*
New Balance	*900.00*	*100.00*	*2 100.00*	*1 100.00*	*500.00*	=	*1 000.00*	*500.00*		*3 200.00*
Transaction 8	*–300.00*					=		*–300.00*		
New Balance	*600.00*	*100.00*	*2 100.00*	*1 100.00*	*500.00*	=	*1 000.00*	*200.00*		*3 200.00*
Transaction 9	*+50.00*			*–50.00*		=				
New Balance	*650.00*	*100.00*	*2 100.00*	*1 050.00*	*500.00*	=	*1 000.00*	*200.00*		*3 200.00*
Transaction 10	*+100.00*				*–100.00*	=				
New Balance	*750.00*	*100.00*	*2 100.00*	*1 050.00*	*400.00*	=	*1 000.00*	*200.00*		*3 200.00*

$4400		$1200		$3200
Assets	=	Liabilities	+	Owner's Equity

b.

Gourmet Catering			
BALANCE SHEET			
November 30, 20xx			
Assets		*Liabilities*	
Cash	750 00	*Accounts Payable:*	
Accounts Receivable:		*P. Easton Co.* 1 000.00	
J. Brown	100 00	*Wallace & Carey* 200.00	1 200 00
Kitchen Equipment	2 100 00	*Total Liabilities*	1 200 00
Dining Room Equipment	1 050 00		
Office Equipment	400 00	*Owner's Equity*	
		I. St. Pierre, Capital	3 200 00
Total Assets	4 400 00	*Total Liabilities and Owner's Equity*	4 400 00

Section 4: Follow-up Activities

Extra Help

1.

	Cash	Acc. Rec., Leader Co.	Office Equipment	Office Furniture	Truck	Accts. Pay., Ace Supply	Accts. Pay., Pine Motors	Fran Mars, Capital
Balance	*1 000.00*	*300.00*	*800.00*	*1 200.00*	*0.00*	*0.00*	*100.00*	*3 200.00*
#1			*+75.00*			*+75.00*		
New Balance	*1 000.00*	*300.00*	*875.00*	*1 200.00*	*0.00*	*75.00*	*100.00*	*3 200.00*
#2	*–50.00*			*+50.00*				
New Balance	*950.00*	*300.00*	*875.00*	*1 250.00*	*0.00*	*75.00*	*100.00*	*3 200.00*
#3	*+300.00*	*–300.00*						
New Balance	*1 250.00*	*0.00*	*875.00*	*1 250.00*	*0.00*	*75.00*	*100.00*	*3 200.00*
#4	*+100.00*							*+100.00*
New Balance	*1 350.00*	*0.00*	*875.00*	*1 250.00*	*0.00*	*75.00*	*100.00*	*3 300.00*
#5					*+6 500.00*			*+6 500.00*
New Balance	*1 350.00*	*0.00*	*875.00*	*1 250.00*	*6 500.00*	*75.00*	*100.00*	*9 800.00*
#6	*–75.00*					*–75.00*		
New Balance	*1 275.00*	*0.00*	*875.00*	*1 250.00*	*6 500.00*	*0.00*	*100.00*	*9 800.00*
#7	*–100.00*							*–100.00*
New Balance	*1 175.00*	*0.00*	*875.00*	*1 250.00*	*6 500.00*	*0.00*	*100.00*	*9 700.00*
#8	*–65.00*							*–65.00*
New Balance	*1 110.00*	*0.00*	*875.00*	*1 250.00*	*6 500.00*	*0.00*	*100.00*	*9 635.00*
#9	*+300.00*							*+300.00*
New Balance	*1 410.00*	*0.00*	*875.00*	*1 250.00*	*6 500.00*	*0.00*	*100.00*	*9 935.00*

$10 035		$100		$9935
Assets	=	Liabilities	+	Owner's Equity

2. a. This form contains answers to question 2.a. and 2.b.

	Cash	Acc. Rec., K. Fosey	Acc. Rec., N. McKay	Office Machines	Equipment	Accts. Pay., Acme Supply Co.	Accts. Pay., Star Services	Betty Bonn, Capital
Balance	426.00	525.00	200.00	175.00	2 967.00	562.00	270.00	3 461.00
#1	+100.00		−100.00					
New Balance	526.00	525.00	100.00	175.00	2 967.00	562.00	270.00	3 461.00
#2	−200.00					−200.00		
New Balance	326.00	525.00	100.00	175.00	2 967.00	362.00	270.00	3 461.00
#3	−35.00			+35.00				
New Balance	291.00	525.00	100.00	210.00	2 967.00	362.00	270.00	3 461.00
#4	+2 700.00							+2 700.00
New Balance	2 991.00	525.00	100.00	210.00	2 967.00	362.00	270.00	6 161.00
#5	−450.00			+450.00				
New Balance	2 541.00	525.00	100.00	660.00	2 967.00	362.00	270.00	6 161.00
#6	+300.00							+300.00
New Balance	2 841.00	525.00	100.00	660.00	2 967.00	362.00	270.00	6 461.00
#7	−200.00				+200.00			
New Balance	2 641.00	525.00	100.00	660.00	3 167.00	362.00	270.00	6 461.00
#8	−60.00							−60.00
New Balance	2 581.00	525.00	100.00	660.00	3 167.00	362.00	270.00	6 401.00
#9	−30.00							−30.00
New Balance	2 551.00	525.00	100.00	660.00	3 167.00	362.00	270.00	6 371.00

b. See the answer to question 2.a.

Enrichment

1. a.

Tartan Paint Co.
BALANCE SHEET
May 1, 20xx

Assets		Liabilities	
Cash	5 000 00	Bank Loan Payable	3 000 00
Sprayers and Brushes	2 000 00	Total Liabilities	3 000 00
Vehicle	12 000 00		
		Owner's Equity	
		R. McGreggor, Capital	16 000 00
Total Assets	19 000 00	Total Liabilities and Owner's Equity	19 000 00

b. The general ledger cards contain answers to question 1.b. and 1.e.

ACCOUNT *Cash* ACCOUNT NO. *101*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	1		G1	5 000 00		DR	5 000 00
	2		G1		150 00	DR	4 850 00
	4		G1	500 00		DR	5 350 00
	5		G1		25 00	DR	5 325 00
	7		G1		400 00	DR	4 925 00
	8		G1	1 000 00		DR	5 925 00
	9		G1		300 00	DR	5 625 00
	10		G1		125 00	DR	5 500 00
	11		G1	2 500 00		DR	8 000 00
	14		G1		200 00	DR	7 800 00
	15		G1	300 00		DR	8 100 00
	16		G2	4 000 00		DR	12 100 00
	17		G2	2 500 00		DR	14 600 00
	20		G2		200 00	DR	14 400 00

ACCOUNT *Accounts Receivable, E. Brown* ACCOUNT NO. *103*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	3		G1	650 00		DR	650 00
	15		G1		300 00	DR	350 00

ACCOUNT *Sprayers and Brushes* ACCOUNT NO. *110*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	1		G1	2 000 00		DR	2 000 00
	2		G1	150 00		DR	2 150 00
	18		G2	3 250 00		DR	5 400 00

ACCOUNT *Vehicle* ACCOUNT NO. *120*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	1		G1	12 000 00		DR	12 000 00

ACCOUNT *Bank Loan Payable* ACCOUNT NO. *201*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	1		G1		3 000 00	CR	3 000 00
	16		G2		4 000 00	CR	7 000 00
	20		G2	200 00		CR	6 800 00

ACCOUNT *Accounts Payable, F. O'Toole* ACCOUNT NO. *205*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	18		G2		3 250 00	CR	3 250 00

ACCOUNT *R. McGreggor, Capital* ACCOUNT NO. *301*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	1		G1		16 000 00	CR	16 000 00
	17		G2		2 500 00	CR	18 500 00

ACCOUNT *R. McGreggor, Drawings* ACCOUNT NO. *302*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	9		G1	300 00		DR	300 00

ACCOUNT *Painting Income* ACCOUNT NO. *402*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	3		G1		650 00	CR	650 00
	4		G1		500 00	CR	1150 00
	8		G1		1000 00	CR	2150 00
	11		G1		2500 00	CR	4650 00

ACCOUNT *Gas Expense* ACCOUNT NO. *501*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	5		G1	25 00		DR	25 00

ACCOUNT *Miscellaneous Expense* ACCOUNT NO. *503*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	14		G1	200 00		DR	200 00

ACCOUNT *Rent Expense* ACCOUNT NO. *506*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	7		G1	400 00		DR	400 00

ACCOUNT *Utilities Expense* ACCOUNT NO. *509*

DATE		ITEM	POST REF.	DEBIT	CREDIT	DR CR	BALANCE
20xx May	10		G1	125 00		DR	125 00

c. The general journal contains answers to question 1.c. and 1.d.

GENERAL JOURNAL

Page 1

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx May	1	Cash	101	5000 00		1
2			Sprayers and Brushes	110	2000 00		2
3			Vehicle	120	12000 00		3
4			Bank Loan Payable	201		3000 00	4
5			R. McGreggor, Capital	301		16000 00	5
6			To record opening entry				6
7		2	Sprayers and Brushes	110	150 00		7
8			Cash	101		150 00	8
9			Bought paintbrushes				9
10		3	Accounts Receivable, E. Brown	103	650 00		10
11			Painting Income	402		650 00	11
12			Billed for services on account				12
13		4	Cash	101	500 00		13
14			Painting Income	402		500 00	14
15			Received for services				15
16		5	Gas Expense	501	25 00		16
17			Cash	101		25 00	17
18			Bought gas for vehicle				18
19		7	Rent Expense	506	400 00		19
20			Cash	101		400 00	20
21			Paid one month's rent				21
22		8	Cash	101	1000 00		22
23			Painting Income	402		1000 00	23
24			Received for services				24
25		9	R. McGreggor, Drawings	302	300 00		25
26			Cash	101		300 00	26
27			Withdrew for personal use				27
28		10	Utilities Expense	509	125 00		28
29			Cash	101		125 00	29
30			Paid utility bill				30
31		11	Cash	101	2500 00		31
32			Painting Income	402		2500 00	32
33			Received for services				33
34		14	Miscellaneous Expense	503	200 00		34
35			Cash	101		200 00	35
36			Repairs to vehicle				36
37		15	Cash	101	300 00		37
38			Accounts Receivable, E. Brown	103		300 00	38
39			Received on account				39

	GENERAL JOURNAL					Page 2
	Date		Account Title	POST REF.	Debit	Credit	
1	20xx May	16	Cash	101	4 000 00		1
2			Bank Loan Payable	201		4 000 00	2
3			Borrowed from bank				3
4		17	Cash	101	2 500 00		4
5			R. McGreggor, Capital	301		2 500 00	5
6			Additional investment				6
7		18	Sprayers and Brushes	110	3 250 00		7
8			Accounts Payable, F. O'Toole	205		3 250 00	8
9			Purchased a paint sprayer				9
10		20	Bank Loan Payable	201	200 00		10
11			Cash	101		200 00	11
12			Payment on a bank loan				12

d. See the answer to question 1.c.

e. See the answer to question 1.b.

f. Proof

Debits		**Credits**	
Assets	32 150.00	Liability	10 050.00
Drawings	300.00	Capital	18 500.00
Expenses	750.00	Revenue	4 650.00
Total	33 200.00	Total	33 200.00

2. Answers will vary. As Alex's accountant, you might have him consider the following factors:

He already owes $32 000. If he borrows an additional $40 000, he will be indebted in the amount of $72 000, which is more than his current total assets. Alex should attempt to collect the $3000 outstanding in accounts receivable and use that amount to pay out his own accounts payable or make a bank loan or mortgage payment. Depending on the condition of the building, Alex may be forced to make repairs in order to help generate income. Perhaps Alex could take on a partner who would be willing to invest a portion of the $40 000 required for a share in the business.

Section 5: Activity 1

1. **Debits** / **Credits**

Debits		Credits	
Cash	15 000.00	Accounts Payable	20 000.00
Equipment	6 500.00	Brander Smith, Capital	20 000.00
Vehicle	18 500.00	Fees Earned	16 500.00
Brander Smith, Drawings	1 500.00		
Miscellaneous Expense	2 500.00		
Salary Expense	9 000.00		
Supplies Expense	3 500.00		
Total	56 500.00	Total	56 500.00

2.

Dr. Kondritos, Dentist

TRIAL BALANCE

January 31, 20xx

Account Title	NO.	Debits	Credits
Cash	*101*	*1 771.36*	
Term Deposit	*102*	*15 680.00*	
Accounts Receivable	*103*	*4 125.00*	
Dental Equipment	*110*	*70 648.00*	
Office Equipment	*112*	*5 875.00*	
Accounts Payable	*202*		*648.00*
Note Payable	*210*		*29 500.00*
Phillip Kondritos, Capital	*301*		*70 000.00*
Phillip Kondritos, Drawings	*302*	*400.00*	
Professional Fees Earned	*401*		*6 694.00*
Dental Supplies Expense	*501*	*95.56*	
Lab Fees Expense	*502*	*700.00*	
Rent Expense	*503*	*5 000.00*	
Salaries Expense	*505*	*2 200.00*	
Telephone Expense	*506*	*285.33*	
Utilities Expense	*507*	*61.75*	
		106 842.00	*106 842.00*

3. Regardless of whether you used a calculator with tape or write the numbers in your notebook, you should get the following totals. They are equal.

Debits	Credits
900.00	650.00
300.00	350.00
500.00	3800.00
2200.00	500.00
900.00	100.00
500.00	50.00
100.00	400.00
50.00	200.00
400.00	
200.00	
6050.00	6050.00

Section 5: Activity 2

1.

R. Frankson and Company				
BALANCE SHEET				
June 30, 20xx				
Assets		*Liabilities*		
Cash	1 000 00	*Bank Loan*	30 000 00	
Accounts Receivable	3 000 00	*Accounts Payable*	2 000 00	
Building	90 000 00	*Total Liabilities*	32 000 00	
Supplies	1 000 00			
Equipment	5 000 00	*Owner's Equity*		
		R. Frankson, Capital	68 000 00	
Total Assets	100 000 00	*Total Liabilities and Owner's Equity*	100 000 00	

2. a. A credit without a debit of equal value will always cause the trial balance to be out of balance. In this case, it is out by $200.

   b. Since the debit and credit are equal, the trial balance would balance, but the accounting records would be incorrect.

   c. Since the debit and credit amounts are not equal, the trial balance would be out of balance by $90. This is a slide error.

   d. Since the debit and credit amounts are equal, the trial balance would balance, but the accounting records would be incorrect.

Section 5: Follow-up Activities

Extra Help

1.

Andrew Farkas			
TRIAL BALANCE			
December 31, 20xx			
Account Title	NO.	Debits	Credits
Cash	101	3 000 00	
Accounts Receivable, Anderson	105	10 940 00	
Supplies	110	3 400 00	
Land	115	50 000 00	
Building	120	140 000 00	
Office Equipment	125	15 350 00	
Automobile	139	21 200 00	
Accounts Payable, Sanders	201		5 160 00
Bank Loan	205		52 000 00
Mortgage Payable	210		78 500 00
J. Stron, Capital	301		108 230 00
		243 890 00	243 890 00

2.

C. Anaka			
TRIAL BALANCE			
June 30, 20xx			
Account Title	NO.	Debits	Credits
Cash	101	5 000 00	
Accounts Receivable, P. Onno	102	850 00	
Accounts Receivable, G. Slaught	103	1 124 00	
Accounts Receivable, R. Tamo	104	3 500 00	
Supplies	110	1 585 00	
Equipment	112	25 350 00	
Automobile	114	22 800 00	
Accounts Payable, J. Batt	202		785 00
Accounts Payable, H. Black	203		1 200 00
Accounts Payable, W. Parker	204		1 000 00
Bank Loan	205		25 000 00
C. Anaka, Capital	301		32 224 00
		60 209 00	60 209 00

Enrichment

1.

Transaction	Trial Balance Correct	Trial Balance Incorrect (by amount shown)
A payment for equipment was recorded as a debit of $495 to Equipment and a credit of $459 to Cash.		out of balance by $36, a transposition error
Cash received from a customer was recorded as a debit of $280 to Cash and a credit of $280 to Accounts Payable.	not out of balance, because debits equal credits	
A credit of $300 to the Capital account was recorded twice.		out of balance by $300
An account balance of $240 was transferred to the wrong side of the trial balance.		out of balance by $480
A payment of $495 to a creditor was recorded by a debit to Accounts Payable of $495 and a credit to Cash of $49.		out of balance by $446

2. a. The Accounts Payable account was understated by $1800.
   b. The total of the debit column was correctly stated.
   c. The Office Equipment account was correctly stated.

Section 6: Activity 1

1. No, it was not wise for Natalya to pay for the balance of the courier fee from her own resources. She should have put an IOU in the petty cash fund to account for the difference, along with a copy of the courier receipt. All expenditures require a source document. Natalya will not be able to recover her tip.

2. a.

GENERAL JOURNAL — Page 11

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx May	1	Petty Cash		250 00		1
2			Cash			250 00	2
3			To establish a petty cash fund				3
4							4

b.

Petty Cash Voucher

No. *001* Date *May 2* 20 *xx*

Paid to *Office Supply Co.* $ *24.50*

For *supplies*

Charge to *Supplies*

Payment Received: *D. Brown* Approved by: *Your Initials*

Petty Cash Voucher

No. *002* Date *May 6* 20 *xx*

Paid to *Gasco Ltd.* $ *35.00*

For *gas for delivery van*

Charge to *Automobile Expense*

Payment Received: *R. Letendre* Approved by: *Your Initials*

Petty Cash Voucher

No. *003* Date *May 12* 20 *xx*

Paid to *Foodco Ltd.* $ *36.00*

For *coffee room supplies*

Charge to *Miscellaneous Expense*

Payment Received: *J. Robinson* Approved by: *Your Initials*

Petty Cash Voucher

No. *004* Date *May 18* 20 *xx*

Paid to *Post Office* $ *38.00*

For *postage stamps*

Charge to *Postage Expense*

Payment Received: *S. Small* Approved by: *Your Initials*

Petty Cash Voucher

No. *005* Date *May 23* 20 *xx*

Paid to *Lethbridge Weekly* $ *12.00*

For *newspaper delivery*

Charge to *Miscellaneous Expense*

Payment Rceived: *L. Olsen* Approved by: *Your Initials*

Petty Cash Voucher

No. *006* Date *May 28* 20 *xx*

Paid to *Speedy Courier Ltd.* $ *13.50*

For *parcel delivery*

Charge to *Delivery Expense*

Payment Received: *K. White* Approved by: *Your Initials*

Section 6: Activity 2

1. a.

Petty Cash Summary	
Date:	
Account	**Amount**
Supplies	*24.50*
Automobile Expense	*35.00*
Delivery Expense	*13.50*
Miscellaneous Expense	*48.00*
Postage Expense	*38.00*
Total	*159.00*
Approved:__________	

b.

GENERAL JOURNAL — Page 23

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx May*	*31*	*Supplies*		*24 50*		1
2			*Automobile Expense*		*35 00*		2
3			*Delivery Expense*		*13 50*		3
4			*Postage Expense*		*38 00*		4
5			*Miscellaneous Expense*		*48 00*		5
6			*Cash*			*159 00*	6
7			*To replenish the petty cash fund*				7

2. There are numerous reasons that the petty cash fund might be over or short. Some of the more common reasons include the following:

- giving incorrect change (either too much or too little)
- removing money from the fund without leaving a voucher
- theft from the fund
- not balancing the fund properly at the end of the previous month
- using the petty cash box as a miscellaneous storage box (throwing loose change into the box)

3. a.

GENERAL JOURNAL — Page 19

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx June	30	*Supplies*		*66 50*		1
2			*Automobile Expense*		*86 50*		2
3			*Delivery Expense*		*10 00*		3
4			*Miscellaneous Expense*		*45 00*		4
5			*Postage Expense*		*38 00*		5
6			*Cash Short and Over*		*1 00*		6
7			*Cash*			*247 00*	7
8			*To replenish the petty cash fund*				8

b.

GENERAL JOURNAL — Page 19

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx June	30	*Supplies*		*66 50*		1
2			*Automobile Expense*		*86 50*		2
3			*Delivery Expense*		*10 00*		3
4			*Miscellaneous Expense*		*45 00*		4
5			*Postage Expense*		*38 00*		5
6			*Cash Short and Over*			*75*	6
7			*Cash*			*245 25*	7
8			*To replenish the petty cash fund*				8

Section 6: Follow-up Activities

Extra Help

1. a.

GENERAL JOURNAL — Page 13

	Date		Account Title	Post Ref.	Debit	Credit	
1	20xx June	1	*Petty Cash*		*200 00*		1
2			*Cash*			*200 00*	2
3			*To establish the petty cash fund*				3

b.

Petty Cash Voucher

No. *001* Date *June 2* 20 *xx*

Paid to *Post Office* $ *38.00*

For *stamps*

Charge to *Postage Expense*

Payment Received *W.H.* Approved by *Your Initials*

Petty Cash Voucher

No. *002* Date *June 4* 20 *xx*

Paid to *Patrick O'Shaunessy* $ *20.00*

For *cleaning windows*

Charge to *Miscellaneous Expense*

Payment Received *J.S.* Approved by *Your Initials*

Petty Cash Voucher

No. *003* Date *June 10* 20 *xx*

Paid to *Gasco Ltd.* $ *35.00*

For *gas for delivery truck*

Charge to *Gas Expense*

Payment Received *W.H.* Approved by *Your Initials*

Petty Cash Voucher

No. *004* Date *June 14* 20 *xx*

Paid to *Speedy Courier Company* $ *18.50*

For *parcel delivery*

Charge to *Delivery Expense*

Payment Received *R.K..* Approved by *Your Initials*

Petty Cash Voucher

No. *005* Date *June 19* 20 *xx*

Paid to *Post Office* $ *76.00*

For *stamps*

Charge to *Postage Expense*

Payment Received *W.H.* Approved by *Your Initials*

Petty Cash Voucher

No. *006* Date *June 28* 20 *xx*

Paid to *IBA Foods Ltd.* $ *10.00*

For *coffee room supplies*

Charge to *Miscellaneous Expense*

Payment Received *W.H.* Approved by *Your Initials*

c.

Petty Cash Summary	
Date:	
Account	**Amount**
Delivery Expense	*18.50*
Gas Expense	*35.00*
Miscellaneous Expense	*30.00*
Postage Expense	*114.00*
Total	*197.50*
Approved:__________	

d.

GENERAL JOURNAL — Page 13

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx June*	*30*	*Delivery Expense*		*18 50*		1
2			*Gas Expense*		*35 00*		2
3			*Miscellaneous Expense*		*30 00*		3
4			*Postage Expense*		*114 00*		4
5			*Cash Short and Over*		*1 00*		5
6			*Cash*			*198 50*	6
7			*To replenish the petty cash fund*				7
8							8

2. a.

GENERAL JOURNAL — Page 24

	Date		Account Title	Post Ref.	Debit	Credit	
1	*20xx Sept.*	*5*	*Petty Cash*		*100 00*		1
2			*Cash*			*100 00*	2
3			*To establish the petty cash fund*				3
4							4

b.

Petty Cash Summary	
Date:	
Account	**Amount**
Office Supplies	*18.25*
Delivery Expense	*22.10*
Miscellaneous Expense	*31.30*
Postage Expense	*14.60*
Total	*86.25*
Approved:__________	

Enrichment

1. a.

GENERAL JOURNAL — Page 34

	Date		Account Title	POST REF.	Debit	Credit	
1	20xx Jan.	1	*Petty Cash*		*50 00*		1
2			*Cash*			*50 00*	2
3			*To establish petty cash fund*				3
4							4

b.

GENERAL JOURNAL — Page 34

	Date		Account Title	POST REF.	Debit	Credit	
1	20xx Jan.	31	*Supplies*		*18 50*		1
2			*Gas Expense*		*11 30*		2
3			*Miscellaneous Expense*		*14 00*		3
4			*Postage Expense*		*4 20*		4
5			*Cash Short and Over*		*50*		5
6			*Cash*			*48 50*	6
7			*To replenish the petty cash fund*				7
8							8

2. Answers will vary. Your report should include the generally accepted accounting Principle of Objectivity. The purpose of the petty cash system is to record all monies that are spent by a company, regardless of how small. The system should be practical, easy to administer, and offer security for everyone, including the person operating the fund. If, as in the example, your friend had gone to a cashier and placed a note in the till, then what would prevent that cashier from "borrowing" money at any time by merely placing a note in the till? The petty cash system allows for the small expenditures to be included in the records of the company. All expenses, if properly documented and recorded, reduce a company's net income. Canada Customs and Revenue Agency might not accept expenses if there are no receipts to support the expenses.

Generally Accepted Accounting Principles

The Business Entity Concept: The Business Entity Concept provides that the accounting for a business or organization be kept separate from the personal affairs of its owner, or from any other business o organization. This means that the owner of a business should not place any personal assets on the business balance sheet. The balance sheet of the business must reflect the financial position of the business alone.

The Going-Concern Concept: The Going-Concern Concept assumes that a business will continue to operate, and have a long life. This means that the business will not cease to operate immediately after commencing business. The assets belonging to a business that is alive and well are relatively easy to value.

The Principle of Conservatism: The Principle of Conservatism provides that accounting for a business should be fair and reasonable. Accountants are required in their work to make evaluations and estimates, to deliver opinions, and to select procedures. They should do so in a way that neither overstates nor understates the affairs of the business or the results of operation.

The Principle of Objectivity: The Principle of Objectivity states that accounting will be recorded on the basis of objective evidence. Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction. Simply put, this means that accounting entries will be based on fact and not on personal opinion or feelings.

The Time Period Concept: The Time Period Concept provides that accounting take place over specifi time periods known as fiscal periods. These fiscal periods are of equal length, and are used when measuring the financial progress of a business.

The Matching Principle: The Matching Principle states that each expense item related to revenue earned must be recorded in the same accounting period as the revenue it helped to earn. If this is not done, the financial statements will not measure the results of operations fairly.

The Cost Principle: The Cost Principle states that the accounting for purchases must be at their cost price. This is the figure that appears on the source document for the transaction in almost all cases. There i no place for guesswork or wishful thinking when accounting for purchases. The value recorded in the accounts for an asset is not changed later if the market value of the asset changes. It would take an entirely new transaction based on new objective evidence to change the original value of an asset.

The Full Disclosure Principle: The Full Disclosure Principle states that any and all information that affects the full understanding of a company's financial statements must be included with the financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes. Examples of such items are outstanding lawsuits, tax disputes, and company takeovers

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